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Report of the
Auditor General
of Canada
to the House of Commons

Foreword and Main Points

September 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Foreword and Main Points



September 1996

This September 1996 Report comprises 8 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my second Report of 1996 to the House of Commons, to be laid before the House in accordance with the provisions of section 7(5) of the *Auditor General Act*.

A handwritten signature in cursive script, reading "L. Denis Desautels".

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 26 September 1996

September 1996

Foreword and Main Points

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Report of the Auditor General to the House of Commons for September 1996

Foreword

I am pleased to table this September volume of my 1996 Report comprising chapters 13 through 20, issued separately. Bound with this Foreword are the Main Points of the chapters, which include:

13. Accountability Practices from the Perspective of First Nations
14. Service Quality
15. Federal Science and Technology Activities: Follow-up
16. Treasury Board Secretariat – Renewing Government Services Using Information Technology
17. Human Resources Development Canada – Canada Pension Plan: Disability
18. Revenue Canada and Department of Finance – Excise Duties and Taxes on Selected Commodities
19. Revenue Canada – Child Tax Benefit and Goods and Services Tax Credit Programs
20. Revenue Canada – Creating One Revenue Canada: The Administrative Consolidation of Customs and Excise and Taxation

Emerging from the recent government-wide Program Review have been several initiatives aimed at improving services to the public while streamlining their delivery, as departments and agencies attempt to manage the effects of downsizing and budget reductions. They have been given more authority and flexibility to run their operations and, at the same time, more responsibility to account for results. The Treasury Board Secretariat's approach has been moving from a focus on controls and compliance to an emphasis on providing co-ordination, encouragement and support to departments and agencies. Our recommendations, whether addressed to departments or to the Secretariat, have taken into account this changing relationship.

As our chapters note, several of the initiatives we examined have produced measurable improvements in service and others promise to do so as they mature. Certain departments have also had some success in streamlining their services, thereby reducing overlap and duplication. However, progress so far is not consistent across the government, nor have all departments managed with equal effectiveness the changes they are undergoing. We believe that our recommendations to specific organizations will be useful to others who are still in the early stages of implementing some of the initiatives.

In the climate that prevails across the government today — with its emphasis on innovation, initiative, flexibility and service to program clients against a backdrop of downsizing, fewer controls and a focus on obtaining measurable results — it is particularly important that certain fundamental controls continue to be exercised. As some of our chapters note, the failure to do so exposes the public purse to considerable risk. Moreover, we note that some departments cannot assess the magnitude of that risk because they do not systematically gather the kind of information needed to do so. Nor have they determined whether the risk has become a reality. Implementing our recommendations would be a significant step in closing this information gap so that senior managers in departments can demonstrate and be accountable for the results they obtain with public money.



Study of Accountability Practices from the Perspective of First Nations

Assistant Auditor General: Maria Barrados

Responsible Auditor: Ronnie Campbell

Chapter 13 – Main Points

13.1 As the relationship between the federal government and First Nations evolves, the issue of accountability continues to present difficulties to all parties. In its accountability to Parliament, government is expected to report on activities undertaken and results achieved. This relationship often becomes more complicated where third parties are used to carry out activities for which government remains responsible.

13.2 This study focusses on the perspectives of one set of the parties in such a relationship, the First Nations. It is aimed at improving our understanding and encouraging the pursuit of solutions. The Office intends to build on this understanding and to take into consideration the lessons learned for future audits and studies dealing with the relationship between First Nations and government.

13.3 This study is based on interviews with nine First Nations and one Tribal Council that Indian and Northern Affairs Canada considered to be well managed. Although there is a broad legal framework that governs First Nations' dealings with the federal government, and First Nations have obligations to their own communities, the discussion focussed on First Nations' day-to-day interaction with government departments. Management practices of First Nations and of government that participants felt could be improved were discussed at length.

13.4 Participants recognized the importance of effective accountability and articulated a clear sense of essential accountability factors. For example, participants felt that it is essential that both First Nations and government have clear and commonly held objectives, that audit meet the needs of their communities as well as of government, and that the focus be on results as opposed to process. Taken together, these factors fit within most definitions of accountability. In an area as complex and contentious as this, it is encouraging to see that these First Nations hold views that appear, to some degree, to be consistent with such definitions.

13.5 However, participants strongly emphasized a two-way perspective as an essential ingredient of accountability. Much of what we heard spoke of accountability among partners or equals. Generally, accountability in government is viewed as a hierarchical relationship involving a delegator, who assigns responsibility to another — a delegate. It is evident that there is a significant difference between this concept and the one that participants felt would better suit their needs.

13.6 While participants felt the current situation was unsatisfactory, many were optimistic and felt that progress could be made. They recognized that both they and government officials work under difficult and uncertain circumstances. This study represents one step toward encouraging improved dialogue with government and First Nations as they develop practical approaches to strengthening and clarifying accountability relationships.



Service Quality

Assistant Auditor General: Maria Barrados
Responsible Auditor: Theresa Duk

Chapter 14 – Main Points

14.1 The federal government delivers many services directly to the public, ranging from issuing passports to answering tax enquiries, to processing claims for employment insurance. However, recent studies continue to show that Canadians remain generally dissatisfied with federal services.

14.2 Since 1990, the government has committed itself to establishing service standards and being accountable for the resulting performance. Service standards would clearly specify the quality of service Canadians can expect to receive, including its timeliness, accessibility and accuracy. An original goal of the government's was to have standards published for major services by March 1994 and to report performance in 1994–95. Later, the goal was extended to the end of 1995.

14.3 Our audit of 13 highly visible services revealed that the government's expectations have not been realized. As of 31 March 1996, although many of the 13 services had put in place some elements of the concept, none of them had implemented service standards that met all the requirements.

14.4 Information on clients' priorities is a prerequisite for developing sound service standards and improvement plans. Only about half the services we audited have collected information on client priorities and their relative importance. Even fewer have assessed their clients' satisfaction with the way each of their priorities is served. This knowledge is important; there is little point to investing effort in areas where client priority is low and satisfaction high when there may be a much better return in areas of high priority and low satisfaction. We also found that many services have not determined the full costs of delivering service. Cost information helps to ensure that government clients receive high-quality and affordable services.

14.5 Telephone services are a significant and growing method of contact between Canadians and the government — with more than 30 million calls answered per year in the six operations we examined. However, the quality of government telephone services needs attention. In one department we found that during peak periods as many as 19 out of 20 calls receive a busy signal. Few departments check the accuracy rate of information that agents give to callers — one that has done so found that the accuracy rate falls between 60 and 80 percent. We believe that departments could and should apply service standards to remedy these persistent problems.

14.6 Much in the area of service standards remains to be done, and a sustained effort is required. Deputy ministers need to provide leadership to ensure that departments focus sufficient effort on major services and follow appropriate plans in developing and implementing service standards. So far, little information has been provided to Parliament to indicate clearly the progress against implementation goals. The government needs to improve its reporting to Parliament on this important subject.



Federal Science and Technology Activities: Follow-up

Assistant Auditor General: Robert L. Lalonde

Responsible Auditors: Richard Flageole and Jacques Goyer

Chapter 15 – Main Points

15.1 The federal government released *Science and Technology for the New Century — A Federal Strategy* in March 1996. The *Strategy* was accompanied by departmental action plans and a *Framework for the Human Resources Management of the Federal Science and Technology Community*. These initiatives, aimed at addressing certain government-wide concerns noted in our 1994 Report, represent important steps in the right direction.

15.2 We found that science-based departments and agencies are making good progress in focussing their science and technology activities and setting their priorities. Although priorities at the government-wide level have not been enunciated, a mechanism has been established to make recommendations on them to Cabinet. Furthermore, the *Strategy* provides direction to departments and agencies in the form of operating principles and directions for conducting many aspects of their science and technology activities. The challenge will be to ensure that such principles and directions become an integral part of the day-to-day management of activities in science-based organizations.

15.3 The *Strategy* gives full recognition to the importance of departments and agencies working together and increasing intergovernmental co-operation and co-ordination. Various initiatives are also under way to improve the assessment of the results and impacts of federal science and technology activities, and to report on the growth of Canada's knowledge-based economy.

15.4 The positive features of the *Framework* for managing scientific personnel include consultation with and participation of a significant number of stakeholders, leadership of work groups by line-department officials to maximize commitment and ownership, and clearly stated expectations of results. People interviewed believe that work under way addresses issues of critical importance, and that if recommendations are successfully implemented, the outcome could be the resolution of many of the issues we reported in 1994, such as the systematic renewal of scientific personnel and the maintenance of the skills and knowledge base of research establishments. Other initiatives conducted in parallel to the *Framework*, such as modifications to the Work Force Adjustment Directive, have also had positive effects.

15.5 Although progress is being made, we have some concerns, notably about the absence of a forum to share "best practices" and the little attention given to the issue of performance measures and reporting mechanisms for the management of scientific personnel.

15.6 Although we are encouraged by the progress reflected to date in the *Strategy* and the *Framework*, implementation is the real challenge. For this reason, we believe that the government needs to devote considerable attention to establishing results-oriented, time-phased implementation plans for both the *Strategy* and the *Framework*. The government also needs to ensure that accountability for results is clearly established. Implementation will require leadership and perseverance at all levels of government — from ministers to scientists. Parliamentary oversight also needs to continue.



Assistant Auditor General: David H. Roth
Responsible Auditor: Nancy Cheng

Treasury Board Secretariat

Renewing Government Services Using Information Technology

Chapter 16 – Main Points

16.1 Government expenditures on information technology, including capital, operating, personnel and other related costs, represent a major investment of over \$3 billion annually. Using information technology judiciously is recognized as a prerequisite for renewing government services.

16.2 We examined two sets of initiatives relating to the government's *Blueprint for Renewing Government Services Using Information Technology*. We noted that implementation of the Blueprint framework is starting to gain momentum and that visible progress is being made in moving toward shared administrative systems. At the same time, we also identified several areas for improvement. For example, we noted that the Treasury Board Secretariat focusses on reporting the status of flagship projects but not the results they have achieved. Reporting their results could promote departmental participation and build on the Blueprint's existing momentum. There is a need for more timely development and implementation of government-wide network management to support the sharing and interoperability of systems. We observed some lessons that can be learned in the use of technology funds to encourage partnership and innovative use of information technology.

16.3 There has been significant progress since the establishment of the Chief Informatics Officer function at the Secretariat in 1993. The release of the Blueprint framework in 1994 was a key milestone in the move toward a government-wide perspective of technology. Furthermore, the use of an interdepartmental committee structure and related work groups has encouraged dialogue and fostered co-operation in the information technology and user communities within government.

16.4 Yet many challenges remain. To harness and build on the existing momentum of support for service renewal, the Secretariat needs to exercise corporate governance and accountability through strategic oversight, without jeopardizing the consensus-building process that fosters horizontal co-ordination, and co-operation across departmental lines.



Human Resources Development Canada

Canada Pension Plan: Disability

Assistant Auditor General: David Ratray
Responsible Auditor: Louis Lalonde

Chapter 17 – Main Points

17.1 Our audit examined the adequacy of management practices related to assessing eligibility for Canada Pension Plan (CPP) Disability benefits and measurement and reporting of achievement of objectives. Our observations and recommendations for improvement are reported in this chapter.

17.2 Over the past 10 years, CPP Disability benefit payments have more than tripled, climbing from \$841 million in 1986–87 to close to \$3 billion in 1995–96. The number of beneficiaries has almost doubled over the same period, from 155,000 to 300,000. The increase in Disability payments has had an important impact on the increase in the most recent projected pay-as-you-go rate.

17.3 Important improvements need to be made to management practices related to the eligibility of Disability benefits. Moreover, CPP management does not have complete and relevant data that would enable it to manage eligibility with due regard to economy. We noted that:

- management information systems are limited and do not allow for sound analysis. Variances between actuarial estimates and actual results have not been examined and reported regularly;
- applications are often adjudicated on the basis of information obtained from the applicants and their physicians. No analysis has been carried out to determine at what stage in the process it would be most economical to search for additional information;
- quality control necessary to improve the soundness of disability adjudication is neither formal nor systematic;
- the effect of guidelines on the number and profile of new applications accepted is not determined;
- few beneficiaries are subject to reassessment for assessing continuing eligibility; and
- there is limited exchange of information between the CPP and other disability plans.

17.4 In the last decade, the CPP has faced an unprecedented increase in the number of disability claims, as have other public and private disability plans. CPP administration undertook a study to identify the reasons for the increase, although no quantification was done. Several measures undertaken to respond to the concerns raised in the study were:

- new incentives to reduce barriers to employment of CPP Disability beneficiaries;
- revised Disability determination guidelines;
- improved communication with clients; and
- improvement of the reassessment program.

Chapter 17 – Main Points (cont'd)

CPP management is starting to come to grips with determining more clearly the causes of growth in Disability payments. The number of beneficiaries has declined recently, for the first time in several years. Many of the new initiatives show promise for the future. We commend all those involved for their efforts to improve the situation. It is too early, however, for the Office to comment on the success of these endeavours, as the number of appeals has grown steadily at all levels for the same time period.

17.5 Guidelines introduced over the years have had a significant impact on costs, which are reflected eventually in the long-term projected contribution rate. While legislative changes require estimates of the impact of contribution rates, and formal consultation with the provinces, we are concerned that some important changes to Disability eligibility practices were introduced in the past without proper assessment of projected costs or actuarial impact analysis.

17.6 The actual cost of Disability benefits exceeded actuarial estimates for the period reviewed until 1995. The roles and responsibilities of the CPP and the Chief Actuary of the Office of the Superintendent of Financial Institutions for ensuring the reliability and integrity of the data used for actuarial projections are unclear. Furthermore, we believe that the Department would benefit from having in-house actuarial expertise to improve the exchange of operational and strategic information.

17.7 The Canada Pension Plan was created in 1966 as a mandatory social insurance program to provide some measure of protection to Canadian workers and their families from loss of earnings resulting from retirement or death, as well as from serious and prolonged disability. CPP Disability provides, on average, about half of recipients' incomes; this share is partly due to the fact that some other income providers reduce their benefits by the amount of CPP Disability benefits. This makes the Plan a first payer in most situations.

17.8 There is limited exchange of information between the CPP and provincial plans or private insurers on medical assessment, decisions rendered, rehabilitation, follow-up and termination of payment to beneficiaries who are receiving benefits from more than one of these organizations. However, the Act that governs the disclosure of information considerably limits the exchange of information. Because there is little co-ordination, beneficiaries often provide the same information to several plans, which results in unnecessary duplication of effort and cost. Better co-ordination among the plans would not only improve service but also reduce expenditures for all plans.

17.9 Recent evaluation studies provide useful information about beneficiaries and alternative ways of providing public disability insurance. Overall, the issues and questions addressed by the studies were appropriate and extensive. The evaluation's Interim Report presented a number of proposals for improving adjudication and appeals processes. The fact that CPP Disability does not have precisely defined objectives has hampered the evaluation's measurement of program success. More discussion and clarification of what CPP Disability is expected to accomplish would be desirable. In addition, more information is needed to cover the significant performance information gaps. The Department has yet to take sufficient steps to fill the identified gaps.

17.10 Our audit did not attempt to determine whether the CPP is a better plan than the Quebec Pension Plan (QPP) from the viewpoint of either the beneficiaries or the contributors. CPP legislation requires that comparable benefits be provided by the Canada Pension Plan and the QPP. The legislation allows a province to opt out of the CPP provided that the province sets up a comprehensive pension plan that provides benefits comparable with those provided by the CPP. According to CPP management, changes to both the CPP and QPP over the years have resulted in differences that at times have increased the distinctions and at other times narrowed them. It is therefore important to evaluate the differences between these plans and make adjustments where appropriate. Important differences between the Disability programs of the two plans have been identified, which may explain the increasing disparity between utilization rates.

Chapter 17 – Main Points (cont'd)

17.11 We recognize that determination of disability is a very difficult task. However, every effort should be made to minimize subjectivity in the process. In the context of regionalization, closer monitoring and proper guidance would assist adjudicators in making fair and consistent decisions. Tighter controls on the quality of decisions and greater emphasis on operational controls, such as reassessment, would also reduce the risk of paying benefits to persons no longer eligible. It is important that CPP management have appropriate controls in place to ensure that those, and only those, who are eligible for benefits are accepted and/or continue to receive benefits and that all beneficiaries are treated equitably and in compliance with the legislation.

17.12 We acknowledge that the issues we have raised in this chapter will be difficult to resolve and cannot all be addressed at once. Those involved in administering CPP Disability would benefit from a comprehensive action plan that sets out the accountability, priorities, responsibilities and resources, if required. Such a plan would foster a common mindset on the issues. The number of recommendations proposed implies that additional resources may be required, although the success of many ongoing projects will depend to some extent upon other projects being implemented concurrently. We are convinced, however, that significant savings in program costs can be achieved as a result of additional efforts to improve the administration of CPP Disability and without causing any prejudice to applicants who meet the eligibility criteria of the Plan.



Revenue Canada and Department of Finance

Excise Duties and Taxes on Selected Commodities

Assistant Auditor General: Shahid Minto

Responsible Auditors: Jim Ralston and Michael Adibe

Chapter 18 – Main Points

18.1 In 1994–95, excise duties and taxes generated some \$6.9 billion, or six percent of gross federal revenue. Of that, 98.4 percent came from the commodities covered in this audit — namely, tobacco, alcohol, motive fuels and jewellery. Various estimates suggest that this excise revenue could have been as much as \$500 million higher were it not for evasion.

18.2 As part of its 1994 anti-smuggling initiative, the government lowered tobacco taxes and increased enforcement resources. Despite the tax reduction and the more vigorous and co-ordinated enforcement efforts of Revenue Canada and the RCMP, evasion of commodity taxes persists. Because of differences in the prices of cigarettes between provinces that lowered their tobacco taxes in response to the federal strategy to combat tobacco smuggling and those that did not, interprovincial smuggling of cigarettes has emerged as a new problem.

18.3 The 1994 Budget Plan forecast that the anti-smuggling initiative would result in a fiscal cost of \$300 million in tobacco tax revenue in 1994–95. Federal revenue from tobacco taxes declined by over \$600 million in 1994–95 compared with 1993–94. Finance's analysis so far has not determined the extent to which this decline is attributable to the reduced tax rate, to evasion or to a change in demand for tobacco products.

18.4 The inherent nature and underlying causes of evasion need to be analyzed more regularly to provide current information to help develop policy and administrative solutions. As well, given the potentially high risk of revenue loss from evasion of motive fuel taxes (which yield the largest amount of federal excise revenue), Revenue Canada and Finance need to systematically assess the extent of fuel tax evasion.

18.5 In the past five years, Revenue Canada has done no excise tax audits of most large licensees (who remit most of the excise taxes) and so risks failing to collect significant amounts of revenue, as audits are statute-barred after four years. The Department recognizes the situation and plans to correct it.

18.6 Revenue Canada maintains high-level aggregate information such as total revenues and number and value of seizures. Finance analyzes the high-level information from Revenue Canada, as well as from Statistics Canada, the RCMP and other sources, to monitor excise revenues. However, Revenue Canada does not on a regular basis collect detailed information needed to monitor, assess and be accountable for its efficiency and effectiveness in administering the commodity taxes and to help Finance's monitoring activities.

18.7 Over the past 21 years, Finance and Revenue Canada have conducted studies and reviews of the *Excise Act*. These reviews have demonstrated the need to revise the Act. The departments are currently doing another joint review. It urgently needs to be completed, as the delay is holding up necessary changes and other desired improvements in the Act and its administration.



Assistant Auditor General: Shahid Minto
Responsible Auditor: Basia Ruta

Revenue Canada

Child Tax Benefit and Goods and Services Tax Credit Programs

Chapter 19 – Main Points

19.1 Revenue Canada administers two key social programs: the Goods and Services Tax Credit and the Child Tax Benefit programs. Both are delivered through the tax system. Prior to September 1995, Revenue Canada administered child tax benefits jointly with Human Resources Development Canada (HRDC). The latter was responsible for determining basic eligibility and Revenue Canada was responsible for all other aspects of the program.

19.2 Each year under these programs about \$8 billion in benefits flows tax-free to over 8 million recipients. Most are families with low or modest incomes.

19.3 Revenue Canada faced a significant challenge to launch the GST credit on time in 1990 and the child tax benefit in 1993, given the short lead times available to meet statutory deadlines. For child tax benefits, the challenge was shared with HRDC. Notwithstanding some important weaknesses in the initial systems, we were impressed with the ability of both departments to publicize the programs and meet the statutory deadlines. Since the programs were launched, millions of families and individuals have been receiving monthly or quarterly social benefit payments. To date, over \$30 billion has been paid out under these programs.

19.4 Revenue Canada has been working to improve service and reduce costs by streamlining its administrative processes. Despite some successes, we have four concerns about the administration of these programs. First, we found that service needs to be substantially improved in some key aspects of delivering the programs, namely in providing access to the Department by phone and in processing child tax benefit applications. Second, the control environment needs to be significantly strengthened to provide reasonable assurance that only those who are eligible receive benefits and receive them in the correct amounts. (This was also the case with HRDC while it had responsibility for determining basic eligibility for child tax benefits, until August 1995.) Third, Revenue Canada has not developed a formal strategy for detecting and preventing fraud and abuse in the programs. Fourth, the Department does not monitor the programs to assess whether the total amount of benefits flowing from each program is reasonable in the aggregate, considering changes in population characteristics and family structure. Our analysis of program statistics against independent data on key variables suggests potentially serious problems that require immediate attention.

19.5 The Department of Finance is responsible for assessing the extent to which program policy is producing the desired outcomes. Despite their social significance and the dollars involved, neither program's performance has been evaluated against its stated objectives. Further, neither program is scheduled for evaluation in Finance's current three-year plan.

19.6 Although child tax benefits and GST credits are key components of Revenue Canada's income redistribution line of business, Parliament receives little information on the Department's performance and priorities in administering the two programs. The little information that is reported in the Department's Part III of the Estimates needs to be strengthened and improved.



Assistant Auditor General: Shahid Minto
Responsible Auditor: Jim Ralston

Revenue Canada

Creating One Revenue Canada: The Administrative Consolidation of Customs and Excise and Taxation

Chapter 20 – Main Points

20.1 Beginning in 1992, the formerly separate departments of Customs and Excise and Taxation were brought together into one department, Revenue Canada. Our audit of the “administrative consolidation” of Revenue Canada selected three aspects on which to judge success:

- corporate management of administrative consolidation;
- the introduction of a single business number for each business client; and
- the opening of “business window” service sites across the country.

20.2 Our examination found there were good practices common to the three aspects that helped make their implementation successful. These included:

- a clear overall vision and principles to guide the process;
- the commitment and involvement of senior management;
- good communication with stakeholders and employees at all levels; and
- good project management.

These practices were particularly important given the special difficulties involved in administrative consolidation, including an uncertain legislative environment and the challenge of combining different work cultures.

20.3 A number of areas still require improvement, including levels of service and classification of staff in the business window activity. The business number project also faces a major challenge in January 1997, when all remaining businesses will be required to convert to the new system.

20.4 Administrative consolidation has been and continues to be a challenging task and, for the most part, it has been well managed by the Department. On the whole, with respect to the aspects we examined, we conclude that administrative consolidation is establishing a solid foundation for:

- streamlined operations;
- improved service; and
- enhanced compliance.

It has also made possible new ways of using and integrating information, both internally and in co-operation with other levels of government.

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Chapitre 20 – Points saillants

20.1 Depuis 1992, les deux ministères de Douanes et Accise et de l'Impôt, qui étaient séparés autrefois, ont été regroupés en un seul ministère, Revenu Canada. Pour notre vérification de « l'unification administrative » de Revenu Canada, nous avons choisi trois aspects nous permettant de juger du succès de l'entreprise :

- la gestion ministérielle de l'unification administrative;

- l'instauration d'un numéro d'entreprise unique pour chaque entreprise;

- l'ouverture des « guichets d'affaires » (points de service) dans l'ensemble du pays.

20.2 Notre examen nous a permis de constater que, pour ces trois aspects, il y avait de bonnes méthodes communes qui ont aidé au succès de la mise en oeuvre. Parmi ces méthodes mentionnons :

- une vision globale et des principes clairs pour guider le processus;
- l'engagement et la participation de la haute direction;
- une bonne communication avec les groupes intéressés et les employés à tous les niveaux;
- une bonne gestion des projets.

Ces méthodes ont été particulièrement importantes, compte tenu des difficultés particulières de l'unification administrative, y compris un cadre législatif incertain et le défi que représentait la combinaison de diverses cultures professionnelles.

20.3 Il peut encore y avoir amélioration dans un certain nombre de domaines, y compris les niveaux de service et la classification des employés reliés au secteur des guichets d'affaires. Le projet de numéro d'entreprise va aussi faire face à un défi de taille en janvier 1997, alors que toutes les entreprises qui ne l'ont pas fait seront tenues de se convertir au nouveau système.

20.4 L'unification administrative a été et continue d'être une tâche stimulante et, dans l'ensemble, elle a bien été gérée par le Ministère. Globalement, en ce qui concerne les aspects examinés, nous en venons à la conclusion que l'unification administrative établit une fondation solide pour :

- des opérations rationalisées;
- un service amélioré;
- une meilleure observation.

L'unification administrative a aussi rendu possible de nouvelles façons d'utiliser et d'intégrer les renseignements à la fois à l'interne et en collaboration avec d'autres paliers de gouvernement.

Chapitre 19 – Points saillants (suite)

19.6 Bien que la prestation fiscale pour enfants et le crédit pour TPS fassent partie des principales composantes du secteur d'activité de Revenu Canada touchant la redistribution des revenus, le Parlement reçoit bien peu d'information sur le rendement du Ministère et sur ses priorités dans l'administration des deux programmes. Les quelques renseignements sur ces deux programmes contenus dans la Partie III du *Budget des dépenses* du Ministère auraient avantage à être étoffés et améliorés.

Revenu Canada Les programmes de prestation fiscale pour enfants et de crédit pour taxe sur les produits et services

Vérificateur général adjoint : Shahid Minto
Vérificatrice responsable : Basia Ruita



Chapitre 19 – Points saillants

19.1 Revenu Canada administre deux programmes sociaux clés, soit le crédit pour taxe sur les produits et services et la prestation fiscale pour enfants. Les deux sont réalisés dans le cadre du régime fiscal. Avant septembre 1995, Revenu Canada et Développement des ressources humaines Canada (DRHC) administraient conjointement le programme de prestation fiscale pour enfants. DRHC avait la responsabilité de déterminer l'admissibilité de base et Revenu Canada était chargé de tous les autres aspects du programme.

19.2 Chaque année, près de huit milliards de dollars en prestations libères d'impôt sont versés à plus de huit millions de bénéficiaires. Dans la plupart des cas, il s'agit de familles à revenu faible ou modique.

19.3 Revenu Canada a dû, dans le court délai d'exécution qu'il avait, relever le défi ambitieux de lancer le programme du crédit pour TPS (en 1990) et celui de la prestation fiscale pour enfants (en 1993) à temps pour respecter les échéances prévues par la loi. Dans le cas de la prestation fiscale pour enfants, le défi a été relevé de concert avec DRHC. Malgré certaines lacunes de taille dans les systèmes initiaux, nous avons été impressionnés par la capacité des deux ministères de faire connaître les programmes et de respecter les délais fixés par la loi. Depuis le lancement de ces programmes, des millions de familles et de particuliers touchent des versements mensuels ou trimestriels de prestations sociales. À ce jour, plus de 30 milliards de dollars ont été ainsi versés.

19.4 Revenu Canada a cherché à améliorer ses services et à réduire ses coûts en rationalisant ses processus administratifs. Malgré certains succès, nous estimons que l'administration de ces programmes soulève quatre problèmes particuliers. Premièrement, nous avons constaté qu'il y avait certains aspects clés de la réalisation des programmes où il faudrait grandement améliorer le service, notamment celui de l'accès au Ministère par téléphone et celui du traitement des demandes de prestation fiscale pour enfants. Deuxièmement, il y aurait lieu de renforcer considérablement l'environnement de contrôle afin de fournir une assurance raisonnable que seules les personnes qui y ont droit reçoivent des prestations et que le montant en est exact. (C'était également le cas de DRHC durant la période où il assumait la responsabilité de déterminer l'admissibilité de base au programme de la prestation fiscale pour enfants, c'est-à-dire jusqu'en août 1995.) Troisièmement, Revenu Canada n'a pas élaboré de stratégie officielle en vue de détecter les fraudes et les abus dans les programmes ou de les prévenir. Quatrièmement, le Ministère n'exerce pas sur les programmes une surveillance qui lui permettrait de savoir si le montant total des sommes versées en vertu de chaque programme est dans l'ensemble raisonnable, compte tenu des changements dans les caractéristiques de la population et dans la structure des familles. Notre analyse des statistiques sur le programme en regard de données indépendantes sur les principales variables laisse entrevoir de graves problèmes qui exigeraient une attention immédiate.

19.5 Le ministère des Finances est chargé d'évaluer dans quelle mesure la politique relative aux programmes donne les résultats souhaités. En dépit de leur importance sur le plan social et des sommes en cause, le rendement de ni l'un ni l'autre programme n'a fait l'objet d'une évaluation en fonction des objectifs énoncés. En outre, aucune évaluation de l'un ou de l'autre n'est prévue dans le plan triennal actuel du ministère des Finances.



Chapitre 18 – Points saillants

18.1 En 1994-1995, les droits et les taxes d'accise ont généré quelque 6,9 milliards de dollars, soit 6 p. 100 des recettes fédérales brutes. De ces recettes, 98,4 p. 100 provenaient des marchandises visées par notre vérification, soit le tabac, l'alcool, le carburant et les bijoux. Selon différentes estimations, ces recettes de l'accise auraient pu atteindre jusqu'à 500 millions de dollars de plus n'eût été de l'évasion fiscale.

18.2 Dans le cadre de son Initiative anticontrebande de 1994, le gouvernement a réduit les taxes sur le tabac et a augmenté les ressources consacrées à l'exécution. Malgré la réduction des taxes et les mesures d'exécution énergiques et coordonnées de Revenu Canada et de la Gendarmerie royale du Canada (GRC), l'évasion des taxes à la consommation persiste. Un nouveau problème, la contrebande de cigarettes entre les provinces, a fait surface en raison des différences dans le prix des cigarettes entre les provinces qui ont réduit leurs taxes sur le tabac en réaction à la stratégie fédérale visant à combattre la contrebande du tabac et les provinces qui ne l'ont pas fait.

18.3 Le plan budgétaire de 1994 prévoyait que l'Initiative anticontrebande entraînerait des coûts fiscaux de 300 millions de dollars en 1994-1995 quant aux recettes provenant de la taxe sur le tabac. Les recettes fédérales découlant des taxes sur le tabac ont baissé de plus de 600 millions de dollars en 1994-1995 par rapport à 1993-1994. L'analyse du ministère des Finances n'a pas encore permis de déterminer dans quelle mesure cette baisse est attribuable à la réduction du taux des taxes, à l'évasion ou à un changement dans la demande en produits du tabac.

18.4 La nature inhérente de l'évasion ainsi que ses causes sous-jacentes doivent être analysées plus régulièrement dans le but d'obtenir des renseignements courants utiles à l'élaboration de solutions politiques et administratives. En outre, étant donné le risque potentiellement élevé de pertes de recettes découlant de l'évasion de la taxe sur le carburant (qui génère la plus grande partie des recettes fédérales provenant de l'accise), Revenu Canada et les Finances doivent évaluer de façon systématique l'ampleur de l'évasion de la taxe sur ce produit.

18.5 Au cours des cinq dernières années, Revenu Canada n'a effectué aucune vérification de la taxe d'accise à l'égard de la plupart des titulaires de licence importants (qui versent la plus grande partie des taxes d'accise) et risque ainsi de ne pas percevoir des montants considérables en recettes puisque les vérifications sont frappées de prescription après quatre ans. Le Ministère est conscient de cette situation et prévoit la corriger.

18.6 Revenu Canada maintient à jour des informations globales de haut niveau comme, par exemple, les recettes totales ainsi que le nombre et la valeur des saisies. Le ministère des Finances analyse les données de haut niveau obtenues de Revenu Canada ainsi que de Statistique Canada, de la GRC et d'autres sources dans le but de contrôler les recettes de l'accise. Cependant, Revenu Canada ne recueille pas régulièrement les renseignements détaillés nécessaires pour contrôler et évaluer son efficacité et son efficacité quant à l'administration des taxes à la consommation, pour rendre des comptes à cet égard et pour appuyer les activités de contrôle des Finances.

18.7 Au cours des 21 dernières années, les Finances et Revenu Canada ont mené des études et des examens de la Loi sur l'accise qui ont fait ressortir la nécessité de réviser la Loi. Les deux ministères effectuent actuellement un autre examen conjoint. Il importe que cet examen soit terminé rapidement puisque le délai retarde la mise en oeuvre des changements nécessaires et d'autres améliorations souhaitées quant à la Loi et à son application.

Chapitre 17 – Points saillants (suite)

17.10 Notre vérification n'a pas tenté de déterminer si le RPC est un meilleur régime que le Régime des rentes du Québec (RRQ), que ce soit du point de vue des prestataires ou de celui des cotisants. Selon la Loi sur le *Régime de pensions du Canada* des prestations comparables doivent être offertes par le RPC et le RRQ. La Loi permet à une province de ne pas souscrire au RPC lorsqu'elle institue un régime général de pensions qui prévoit le paiement de prestations comparables à celles du RPC. Selon l'administration du RPC, au fil des ans, des changements tant au RPC qu'au RRQ ont amené des différences qui ont tantôt élargi tantôt réduit l'écart entre ces deux régimes. Il importe donc d'évaluer les différences entre les régimes et de prendre les mesures correctives nécessaires. Des différences importantes entre les programmes d'invalidité des deux régimes ont été relevées et peuvent expliquer la disparité croissante entre les taux d'utilisation.

17.11 Nous admettons d'emblée qu'il est difficile de prendre des décisions en matière d'invalidité. Toutefois, il faut tout faire pour atténuer l'aspect subjectif du processus. Dans le contexte de la régionalisation, une surveillance plus étroite et des directives adéquates aideraient les évaluateurs à prendre des décisions justes et uniformes. Des contrôles plus serrés de la qualité des décisions et une importance accrue accordée aux contrôles opérationnels, comme les réévaluations, réduiraient le risque que des prestations soient versées à des personnes qui n'y ont plus droit. Il est important que la direction du RPC se dote de mesures de contrôle adéquates visant à garantir que seules les personnes admissibles sont acceptées ou continuent de recevoir des prestations et que tous les prestataires sont traités équitablement, conformément à la Loi.

17.12 Nous reconnaissons que les questions soulevées dans ce chapitre seront difficiles à régler et qu'elles ne peuvent toutes être réglées en même temps. Le personnel qui administre le RPC-Invalidité profiterait d'un plan d'action complet qui déterminerait le cadre de responsabilité, les priorités, les responsabilités et les ressources nécessaires. Un tel plan susciterait une vision commune des questions. Le nombre de recommandations proposées suppose que des ressources additionnelles pourraient être requises, bien que la réussite de nombreux projets dépende dans une large mesure de la mise en œuvre simultanée d'autres projets. Cependant, nous sommes convaincus qu'il est possible de réduire sensiblement les coûts du programme si l'on consent des efforts supplémentaires pour améliorer l'administration du RPC-Invalidité et ce, sans porter préjudice aux requérants qui rencontrent les critères d'admissibilité du Régime.

Chapitre 17 – Points saillants (suite)

- la révision des lignes directrices sur la détermination de l'invalidité;
- l'amélioration des communications avec les clients;
- l'amélioration du programme de réévaluation.

La direction du RPC commence à mieux cerner les causes de la croissance des prestations d'invalidité. Le nombre de prestataires a diminué récemment, pour la première fois depuis plusieurs années. Plusieurs des nouvelles initiatives sont prometteuses pour l'avenir. Les efforts déployés pour améliorer la situation méritent d'être soulignés. Il est encore trop tôt, cependant, pour que le Bureau puisse commenter le succès de ces tentatives puisque le nombre de cas en appel a augmenté régulièrement à tous les niveaux durant cette même période.

17.5 Au fil des ans, les lignes directrices ont eu une incidence importante sur les coûts, ce qui se reflète à la fin sur le taux de cotisation projeté à long terme. Pour toute modification législative, il faut prévoir une étude d'impact sur les taux de cotisation et des consultations formelles avec les provinces. Or, des changements importants aux pratiques relatives à l'admissibilité au RPC-Invalidité ont été introduits par le passé sans une évaluation adéquate des coûts prévus ni une analyse de l'impact actuariel, ce qui soulève chez nous de vives préoccupations.

17.6 Le coût réel des prestations d'invalidité dépasse les estimations actuarielles pour la période à l'étude, jusqu'en 1995. Les rôles et responsabilités du RPC et de l'actuaire en chef du Bureau du surintendant des institutions financières afin d'assurer la fiabilité et l'intégrité des données utilisées pour les projections actuarielles ne sont pas clairement définis. À notre avis, le Ministère gagnerait par ailleurs à pouvoir compter sur sa propre expertise actuarielle pour améliorer l'échange d'information opérationnelle et stratégique.

17.7 Créé en 1966, le Régime de pensions du Canada est un régime d'assurance sociale à cotisation obligatoire, dont l'objectif est d'assurer la protection des travailleurs canadiens et de leur famille contre la perte de revenus résultant de la retraite, de l'invalidité grave et prolongée et du décès. Le RPC-Invalidité fournit, en moyenne, près de la moitié des revenus des prestataires, dû au fait que certains organismes réduisent leurs prestations du montant des prestations d'invalidité versées par le RPC. Cela place généralement le Régime dans une position de premier payeur.

17.8 Il y a peu d'échange d'information entre le RPC, les régimes provinciaux et les assureurs privés sur l'expertise médicale, les décisions rendues, la réadaptation, le suivi et les cessations de paiements aux prestataires qui reçoivent des prestations de plus d'un de ces organismes. Toutefois, la Loi sur le Régime de pensions du Canada, qui régit la diffusion d'information, limite considérablement l'échange d'information. Comme la coordination est limitée, les prestataires doivent souvent fournir les mêmes renseignements à plusieurs régimes, entraînant ainsi des efforts et des coûts inutiles. Une meilleure coordination des régimes non seulement améliorerait le service, mais encore réduirait les dépenses de tous les régimes.

17.9 De récentes études d'évaluation nous ont fourni des données utiles sur les prestataires et sur d'autres modes de prestation de l'assurance-invalidité publique. Règle générale, elles abordaient des questions et des problèmes pertinents de façon exhaustive. Le rapport provisoire de l'évaluation fait état d'un certain nombre de propositions visant à améliorer l'évaluation de l'admissibilité et le processus d'appel. Le RPC-Invalidité n'a pas d'objectifs clairement définis, ce qui a gêné la mesure du succès du programme. Plus de discussion et de clarification sur ce que l'on attend du RPC-Invalidité serait souhaitable. De plus, il est essentiel de colliger plus de données, pour combler le manque important d'information sur le rendement du programme. Le Ministère n'a pas encore pris suffisamment de mesures pour combler ces lacunes.



Chapitre 17 – Points saillants

17.1 Nous avons examiné si les pratiques de gestion liées à l'évaluation de l'admissibilité aux prestations d'invalidité du Régime de pensions du Canada (RPC) sont adéquates. Notre examen portait également sur la mesure des résultats du programme et l'information communiquée sur l'atteinte des objectifs. Les observations et les recommandations formulées dans ce chapitre portent sur les améliorations à apporter.

17.2 Au cours des dix dernières années, les prestations d'invalidité versées au titre du RPC ont plus que triplé, grimpart de 841 millions de dollars en 1986-1987 à près de trois milliards de dollars en 1995-1996. Le nombre de prestataires a presque doublé au cours de la même période, passant de 155 000 à 300 000. L'augmentation du coût des prestations d'invalidité a eu un impact important sur l'augmentation du plus récent taux par répartition projeté.

17.3 Il y a lieu d'améliorer de façon importante les pratiques de gestion reliées à l'admissibilité aux prestations d'invalidité. De plus, la direction du RPC ne dispose pas de données complètes et pertinentes pour lui permettre d'assurer une gestion économique de l'admissibilité. Nous avons constaté que :

- les systèmes d'information de gestion sont limités et ne permettent pas de réaliser des analyses fiables. Les écarts entre les prévisions actuarielles et les résultats réels n'ont pas été étudiés ni communiqués de façon régulière;
- l'évaluation des demandes est bien souvent fondée sur l'information présentée par les requérants et leurs médecins. Aucune analyse n'est effectuée pour déterminer à quelle étape du processus il serait plus économique d'obtenir d'autres renseignements;
- le contrôle de la qualité nécessaire pour accroître la fiabilité des décisions relatives aux demandes de prestations d'invalidité n'est ni formel ni systématique;
- l'incidence des lignes directrices sur le nombre et le profil des nouvelles demandes acceptées n'est pas déterminée;
- peu de prestataires sont soumis à une réévaluation de leur dossier pour déterminer s'ils sont toujours admissibles aux prestations;
- les échanges d'information entre le RPC et les autres régimes d'invalidité sont restreints.

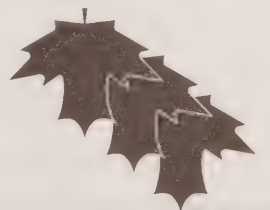
17.4 Au cours de la dernière décennie, le RPC a connu une augmentation sans précédent du nombre de demandes de prestations d'invalidité, tout comme d'autres régimes publics et privés d'assurance-invalidité. L'administration du RPC a réalisé une étude pour déterminer les causes de l'augmentation, sans toutefois chercher à les quantifier. Plusieurs mesures ont été prises en réponse aux préoccupations soulevées par l'étude, dont :

- de nouvelles mesures incitatives visant à réduire les obstacles à l'emploi des prestataires du RPC-Invalidité;

Secrétariat du Conseil du Trésor

Le renouvellement des services gouvernementaux à l'aide des technologies de l'information

Vérificateur général adjoint : David H. Roth
Vérificatrice responsable : Nancy Cheng



Chapitre 16 – Points saillants

16.1 Les sommes que le gouvernement consacre aux technologies de l'information, y compris les coûts relatifs au capital, au fonctionnement, au personnel et d'autres coûts connexes, représentent un investissement substantiel de plus de trois milliards de dollars par année. Il est reconnu que l'utilisation judicieuse des technologies de l'information est une condition préalable du renouvellement des services gouvernementaux.

16.2 Nous avons examiné deux séries d'initiatives liées au *Plan directeur pour le renouvellement des services gouvernementaux à l'aide des technologies de l'information*. Nous avons constaté que la mise en oeuvre du *Plan directeur* commence à produire un effet d'impulsion et que le partage des systèmes administratifs progresse de façon visible. Nous avons en même temps relevé plusieurs secteurs où des améliorations pourraient être apportées. À titre d'exemple, nous avons constaté que le Secrétariat du Conseil du Trésor met l'accent sur la présentation de l'état d'avancement des projets pilotes et non sur les résultats obtenus. La présentation des résultats pourrait encourager la participation des ministères et maintenir l'impulsion actuelle. L'élaboration et la mise en oeuvre des activités de gestion des réseaux gouvernementaux doivent se faire plus rapidement afin d'appuyer le partage et l'interfonctionnement des systèmes. Nous avons relevé quelques leçons tirées de l'utilisation des fonds affectés aux technologies pour encourager le partenariat et l'utilisation novatrice des technologies de l'information.

16.3 D'importants progrès ont été accomplis depuis la création au Secrétariat, en 1993, du poste de Dirigeant principal de l'information. La publication, en 1994, du *Plan directeur* a constitué un jalon important pour l'adoption d'un plan concernant les technologies au gouvernement. En outre, le recours à une structure de comité interministériel et à des groupes de travail connexes a favorisé le dialogue et la coopération au sein des communautés des technologies de l'information et des utilisateurs au gouvernement.

16.4 Et pourtant, de nombreux défis doivent encore être relevés. Pour exploiter et intensifier l'impulsion actuelle donnée au soutien du renouvellement des services, le Secrétariat doit assurer la régie et la reddition de comptes par une surveillance stratégique, sans toutefois mettre en danger le processus de recherche de consensus, qui favorise la coordination horizontale et la coopération entre les directions organisationnelles des ministères.

Les activités fédérales dans le domaine des sciences et de la technologie — Suivi!



Vérificateur général adjoint : Robert L. Lalonde
Vérificateurs responsables : Richard Flageole et Jacques Goyer

Chapitre 15 – Points saillants

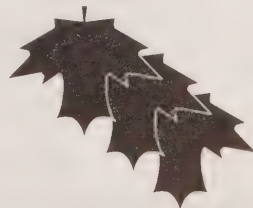
15.1 Le gouvernement fédéral a publié en mars 1996 le document intitulé *Les sciences et la technologie à l'aube du XXI^e siècle — La stratégie fédérale*. La *Stratégie* était accompagnée de plans d'action ministériels et du *Cadre de gestion des ressources humaines de la communauté scientifique et technologique fédérale*. Ces initiatives, qui visent à répondre à certaines préoccupations générales soulevées dans notre rapport de 1994, constituent des étapes importantes dans la bonne voie.

15.2 Nous avons constaté que les ministères et organismes à vocation scientifique progressent bien pour ce qui est de cibler leurs activités scientifiques et technologiques et de fixer leurs priorités. Bien que des priorités à l'échelle de l'administration fédérale n'aient pas été énoncées, un mécanisme a été établi pour faire des recommandations au Cabinet à cet égard. De plus, la *Stratégie* donne une direction aux ministères et organismes sous la forme de principes de travail et d'orientations qui devront sous-tendre un grand nombre d'aspects de leurs activités scientifiques et technologiques. Le défi sera de s'assurer que ces principes et ces orientations deviennent partie intégrante de la gestion quotidienne des activités des organisations à vocation scientifique.

15.3 La *Stratégie* reconnaît qu'il est important que les ministères et organismes travaillent ensemble et s'attachent à accroître la coopération et la coordination intergouvernementales. Diverses initiatives sont également en cours afin d'améliorer l'évaluation des résultats et de l'incidence des activités scientifiques et technologiques du gouvernement fédéral, et de communiquer de l'information sur la croissance de l'économie du savoir au Canada.

15.4 Les éléments positifs du *Cadre* de gestion du personnel scientifique comprennent la consultation ainsi que la participation d'un nombre important de parties intéressées, la direction donnée aux groupes de travail par les cadres des ministères à vocation scientifique afin de maximiser l'engagement et le sens d'appartenance, ainsi que des attentes clairement formulées en ce qui concerne les résultats. Les personnes que nous avons interviewées sont d'avis que les travaux en cours portent sur des questions d'une grande importance et que, si la mise en œuvre des recommandations est couronnée de succès, il se pourrait qu'un grand nombre de questions que nous avons soulevées en 1994 soient résolues. Notons, par exemple, le renouvellement systématique du personnel scientifique et le maintien du capital de compétences et de connaissances des établissements de recherche. D'autres initiatives menées parallèlement au *Cadre*, par exemple, les modifications de la Directive sur le réaménagement des effectifs, ont eu aussi des effets positifs.

15.5 Bien que nous notions des progrès, nous éprouvons toutefois certaines inquiétudes, notamment au sujet de l'absence d'un forum où l'on partagerait les « meilleures pratiques » et du peu d'attention accordée à la mesure du rendement et au mécanisme de communication de l'information relatif à la gestion du personnel scientifique. Nonobstant les progrès faits jusqu'ici à propos de la *Stratégie* et du *Cadre*, la mise en œuvre représente le véritable défi. C'est pourquoi nous sommes d'avis que le gouvernement doit prêter une attention particulière à l'établissement de plans de mise en œuvre par étape axés sur les résultats pour la *Stratégie* et le *Cadre*. Le gouvernement doit aussi s'assurer que la responsabilité de l'atteinte des résultats sera clairement établie. La mise en œuvre exigera du leadership et de la persévérance de la part de tous les échelons de gouvernement — des ministres aux scientifiques. La surveillance par le Parlement doit aussi se poursuivre.



Vérificatrice générale adjointe : Maria Barrados
Vérificatrice responsable : Theresa Duk

Chapitre 14 – Points saillants

14.1 Le gouvernement fédéral assure directement au public de nombreux services, qu'il s'agisse d'émettre des passeports, de répondre à des demandes de renseignements sur l'impôt, ou encore de traiter des demandes d'assurance-emploi. Cependant, des études récentes continuent de montrer que les Canadiens demeurent généralement insatisfaits des services fédéraux.

14.2 En 1990, le gouvernement s'est engagé à établir des normes de service et à rendre compte de son rendement à cet égard. Les normes de service indiqueraient clairement la qualité du service que les Canadiens peuvent s'attendre de recevoir, sur les plans de la rapidité, de l'accessibilité et de l'exactitude. Au départ, l'objectif du gouvernement était le suivant : la publication, par les principaux services, de normes en mars 1994 et la production de rapports sur le rendement en 1994-1995. L'échéance a ensuite été reportée à la fin de 1995.

14.3 Notre vérification de 13 services fort visibles a révélé que les attentes du gouvernement ne se sont pas réalisées. Bien que bon nombre des 13 services aient mis en place au 31 mars 1996 certains éléments du concept, aucun d'entre eux n'avait mis en oeuvre de normes de service répondant à toutes les exigences.

14.4 Pour concevoir des normes de service et des plans d'amélioration adéquats, il faut tout d'abord recueillir de l'information sur les priorités des clients. Parmi les services que nous avons vérifiés, seulement la moitié environ avaient recueilli de l'information sur les priorités de leurs clients et leur importance relative. Un nombre encore plus faible avait évalué la satisfaction de leurs clients relativement à chacune de leurs priorités. Cette connaissance est importante; il ne sert à rien de déployer beaucoup d'efforts dans des domaines jugés par les clients peu prioritaires et très satisfaisants alors que des efforts dans des domaines jugés fortement prioritaires et insatisfaisants pourraient rapporter bien davantage. Nous avons constaté également que de nombreux services n'avaient pas déterminé les coûts entiers de la prestation de leurs services. L'information sur les coûts aide à garantir que les clients des services gouvernementaux reçoivent des services de grande qualité à un coût abordable.

14.5 Les services téléphoniques sont un mode important et croissant de communication entre les Canadiens et le gouvernement — les six services que nous avons examinés recevant plus de 30 millions d'appels par année. Cependant, l'amélioration de la qualité des services téléphoniques s'impose. Dans un ministère, nous avons constaté qu'au cours des périodes de pointe, les personnes qui appellent se heurtent à des lignes occupées dans 19 cas sur 20. Peu de ministères vérifient le taux d'exactitude de l'information que leurs agents donnent aux personnes qui appellent — un ministère qui le fait a constaté que le taux d'exactitude était de 60 à 80 p. 100. Nous pensons que les ministères peuvent et doivent appliquer des normes de service pour corriger ces problèmes qui persistent.

14.6 Il reste beaucoup à faire dans le domaine des normes de service, et il faut des efforts soutenus. Les sous-ministres doivent assurer le leadership pour garantir que leurs ministères concentrent suffisamment d'efforts sur les principaux services et suivent des plans appropriés pour élaborer des normes de service et les mettre en oeuvre. Jusqu'à maintenant, le Parlement n'a reçu que peu d'information indiquant clairement les progrès réalisés par rapport aux objectifs de mise en oeuvre. Le gouvernement doit améliorer l'information qu'il communique au Parlement sur cette question importante.



Chapitre 13 – Points saillants

13.1 Les relations entre le gouvernement fédéral et les Premières nations évoluent, mais la question de la reddition des comptes continue de soulever des difficultés pour toutes les parties. Dans les comptes qu'il rend au Parlement, le gouvernement doit faire état des activités entreprises et des résultats obtenus. Ces relations se compliquent souvent lorsqu'on fait appel à des tiers pour exécuter des activités dont le gouvernement garde la responsabilité.

13.2 La présente étude met l'accent sur les points de vue d'un groupe de l'une des parties en cause, les Premières nations. Elle a pour objet d'améliorer notre connaissance de la situation et de favoriser la recherche de solutions. Le Bureau entend miser sur cette connaissance et tenir compte des leçons apprises pour ses vérifications et études futures des relations entre les Premières nations et le gouvernement.

13.3 L'étude est fondée sur des entrevues menées auprès de neuf Premières nations et d'un conseil tribal, que le ministère des Affaires indiennes et du Nord canadien considérerait comme étant bien gérés. Même si un cadre juridique général régit les rapports entre les Premières nations et le gouvernement et même si les Premières nations ont des obligations envers leurs propres collectivités, la discussion a surtout porté sur l'interaction quotidienne entre les Premières nations et les ministères gouvernementaux. Les pratiques de gestion des Premières nations et du gouvernement qui, de l'avis des participants, pouvaient être améliorées, ont fait l'objet de longues discussions.

13.4 Les participants ont reconnu l'importance d'une bonne reddition des comptes et ils ont énoncé clairement les facteurs qui sont essentiels à cette fin. Par exemple, les participants estiment qu'il est indispensable que les Premières nations et le gouvernement aient des objectifs clairs et communs, que la vérification réponde aux besoins de leurs collectivités ainsi qu'à ceux du gouvernement et que l'accent soit mis sur les résultats plutôt que sur les processus. Ensemble, ces facteurs cadrent avec la plupart des définitions de la reddition des comptes. Dans un domaine aussi complexe et litigieux que celui-ci, il est encourageant de voir que les Premières nations participantes ont des opinions qui semblent, dans une certaine mesure, être compatibles avec ces définitions.

13.5 Toutefois, les participants ont bien fait sentir l'importance de la réciprocité comme élément essentiel de la reddition des comptes. La plupart des commentaires formulés parlaient de reddition des comptes entre partenaires ou égaux. En général, la reddition des comptes au gouvernement est considérée comme une relation hiérarchique où intervient un délégué, qui délègue la responsabilité à quelqu'un d'autre, le délégataire. Il est clair qu'il existe une différence considérable entre ce concept et celui que les participants considéraient comme mieux adapté à leurs besoins.

13.6 Même si les participants sont d'avis que la situation actuelle est insatisfaisante, bon nombre d'entre eux sont optimistes et estiment que des progrès sont possibles. Ils reconnaissent qu'eux-mêmes, aussi bien que les fonctionnaires du gouvernement, travaillent dans des circonstances difficiles et incertaines. La présente étude constitue une étape en vue de favoriser un dialogue accru avec le gouvernement et les Premières nations alors qu'ils élaborent des moyens pratiques de resserrer et de clarifier les relations en matière de reddition des comptes.

Avant-propos (suite)

En raison du climat actuel au sein du gouvernement - où l'on met l'accent sur l'innovation, l'esprit d'initiative, la souplesse et le service aux clients des programmes, tout en réduisant les effectifs, en diminuant les contrôles et en insistant sur l'obtention de résultats mesurables - il est particulièrement important que certains contrôles fondamentaux continuent d'être exercés. Comme le soulignent certains de nos chapitres, l'absence de ces contrôles expose les fonds publics à des risques considérables. De plus, nous signalons que certains ministères ne peuvent pas mesurer l'ampleur de ce risque parce qu'ils ne recueillent pas systématiquement le genre d'information nécessaire pour le faire et qu'ils n'ont pas déterminé si le risque est devenu réalité. La mise en oeuvre de nos recommandations contribuerait considérablement à combler ce manque d'information, ce qui permettrait aux cadres supérieurs des ministères de montrer qu'ils obtiennent des résultats avec l'argent des contribuables et de rendre compte de ces résultats.

Rapport du vérificateur général du Canada à la Chambre des communes — Septembre 1996



Avant-propos

Je suis heureux de déposer le volume de septembre de mon rapport de 1996. On y trouve, publiés en fascicules distincts, les chapitres 13 à 20 ainsi que l'Avant-propos et les Points saillants des chapitres dont voici la liste :

13. Étude sur les pratiques de reddition des comptes — Point de vue des Premières nations
14. La qualité du service
15. Les activités fédérales dans le domaine des sciences et de la technologie — Suivi
16. Secrétariat du Conseil du Trésor — Le renouvellement des services gouvernementaux à l'aide des technologies de l'information
17. Développement des ressources humaines Canada — Régime de pensions du Canada — Invalidité
18. Revenu Canada et le ministère des Finances — Les droits et les taxes d'accise sur certaines marchandises
19. Revenu Canada — Les programmes de prestation fiscale pour enfants et de crédit pour taxe sur les produits et services
20. Revenu Canada — L'unification de Revenu Canada — Le regroupement administratif de Douanes et Accises et de l'Impôt.

Plusieurs initiatives ont vu le jour à l'issue du récent Examen des programmes de portée gouvernementale. Elles visent à la fois à améliorer les services au public et à rationaliser leur prestation, alors que les ministères et les organismes tentent de gérer les répercussions de la réduction des effectifs et des compressions budgétaires. Ces derniers ont désormais plus de pouvoirs et de latitude pour mener leurs activités, mais ils ont également l'obligation de mieux rendre compte des résultats obtenus. Le Secrétariat du Conseil du Trésor, qui autrefois privilégiait les contrôles et la conformité aux textes réglementaires, mettra dorénavant l'accent sur la coordination, l'encouragement et l'appui aux ministères et aux organismes. Nos recommandations, qu'elles soient adressées aux ministères ou au Secrétariat, tiennent compte de cette nouvelle orientation.

Comme nous l'indiquons dans nos chapitres, plusieurs des initiatives examinées ont donné lieu à des améliorations mesurables du service et d'autres promettent d'en faire autant avec le temps. Certains ministères ont également assez bien réussi la rationalisation de leurs services, réduisant ainsi les chevauchements et les doubles emplois. Toutefois, jusqu'à maintenant, les progrès ne sont pas uniformes dans l'ensemble du gouvernement, et les ministères n'ont pas tous géré les changements qu'ils subissent avec la même efficacité. À notre avis, nos recommandations à des organisations précises seront utiles à d'autres qui n'en sont encore qu'aux premières étapes de la mise en œuvre de certaines initiatives.

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Rapport du vérificateur général du Canada – Septembre 1996

Septembre 1996

Avant-propos et Points saillants



À l'honorable Président de la Chambre des communes :

J'ai l'honneur de vous transmettre ci-joint mon deuxième rapport de 1996 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(5) de la *Loi sur le vérificateur général*.

Le vérificateur général du Canada,

A handwritten signature in dark ink, appearing to read 'L. Denis Desautels'.

L. Denis Desautels, FCA

OTTAWA, le 26 septembre 1996

Le Rapport de septembre 1996 comporte 8 chapitres ainsi qu'un Avant-propos et Points saillants. Pour mieux répondre aux besoins de nos clients, il est disponible sur divers supports. Pour obtenir d'autres documents ou les obtenir sur un autre support, voir la Table des matières et le bon de commande à la fin du présent document.

Dans le présent rapport, le genre masculin est utilisé sans aucune discrimination et uniquement dans le but d'alléger le texte.

Rapport du
Vérificateur général
du Canada
à la Chambre des communes
Avant-propos et Points saillants

Septembre 1996

Septembre 1996

Rapport du
Vérificateur général
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à la Chambre des communes
Avant-propos et Points saillants

CAI
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-ASS

Report of the
**Auditor General
of Canada**
to the House of Commons

Foreword and Main Points

Chapter 1
Other Audit Observations

May 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Foreword and Main Points

Chapter 1
Other Audit Observations



May 1996

This May 1996 Report comprises 12 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

To The Honourable the Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 1996 to the House of Commons, to be laid before the House in accordance with the provisions of section 7(5) of the *Auditor General Act*.

A handwritten signature in dark ink, reading "L. Denis Desautels".

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 7 May 1996

May 1996

Foreword and Main Points

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Report of the Auditor General to the House of Commons for May 1996

Foreword

I am pleased to table the May volume of my 1996 Report. Bound with this Foreword are the Main Points and Chapter 1 – Other Audit Observations. Eleven additional chapters are issued separately:

2. The Implementation of Federal Environmental Stewardship
3. Evaluation in the Federal Government
4. Internal Audit in Departments and Agencies
5. The Reform of Classification and Job Evaluation in the Public Service
- 6, 7. Peacekeeping
 - Foreign Affairs and International Trade Canada
 - National Defence
8. Canadian Security Intelligence Service – National Headquarters Building Project
9. Agriculture and Agri-Food Canada – Animal and Plant Health: Inspection and Regulation
10. Correctional Service Canada – Rehabilitation Programs for Offenders
11. Revenue Canada – Combatting Income Tax Avoidance
12. Veterans Affairs Canada – Health Care

The structure of government and the design of government programs are evolving in response to shrinking resources and changing public expectations. Several of the chapters in this Report underscore the importance of having strong program and departmental leadership, commitment to policy choices and the right kinds of information on which to base decisions. The availability of information and commitment to follow good management practices will affect this evolution of government and thus, in one way or another, the future for most Canadians.

The fundamental tools of good management are available to government managers. As the chapters in this Report show, some are using the tools better and more consistently than in the past. Others have demonstrated a lack of commitment to stated policy and have not provided the leadership necessary to demonstrate good program management. The Report also notes that there are still gaps in providing the information to Parliament in a way that can be used productively.

Whether programs are obtaining the results they were designed for; whether there are less costly but equally effective alternatives; whether limited resources are being targeted at areas where they are needed most or where they have the greatest impact; whether policy makers know the implications of the alternatives they choose or eliminate: these are the kinds of information that public servants need to obtain, use and provide so that Canadians can rely with confidence on their government to make the informed decisions needed to guide them into the future.



Other Audit Observations

Chapter 1 – Main Points

1.1 The *Auditor General Act* requires the Auditor General to include in his Reports matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

1.2 The “Other Audit Observations” chapter fulfils a special role in the Report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

1.3 The chapter normally contains observations concerning departmental expenditures and revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

1.4 Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.

1.5 Observations reported cover the following:

- the lack of clarity about results expected from a \$7.5 million community adjustment initiative; and
- serious concerns about the administration of the *Income Tax Act* involving the movement out of Canada of at least \$2 billion of assets held in family trusts.



The Implementation of Federal Environmental Stewardship

Assistant Auditor General: Robert R. Lalonde
Responsible Auditor: Wayne Cluskey

Chapter 2 – Main Points

2.1 Since its announcement in the Green Plan (1990), environmental stewardship has been practised by federal departments and agencies. In 1992 the federal Code of Environmental Stewardship provided direction for the “greening” of government operations, which includes the preparation of environmental action plans. While most agencies will continue to operate under the Code, departments as of December 1995 are required to prepare sustainable development strategies and plans for their implementation, following amendments to the *Auditor General Act*.

2.2 A strategic framework for environmental stewardship, laid out in 1991, assigned responsibilities to departments and agencies. However, the program was not implemented as foreseen. This is illustrated by the generally poor response rate of departments and agencies in preparing and updating action plans and providing progress reports.

2.3 As the greening process is now in a period of transition, it is a good time to review progress to date and make any necessary changes to maintain its momentum. In our view, while considerable progress has been made since 1992, there are lessons to be learned from past experiences.

2.4 There is a need for leadership for the greening process both government-wide and within individual departments and agencies. Responsibility for the implementation of the process must be clarified.

2.5 Information management needs to be improved if the process is to remain on track. While Environment Canada, as facilitator, has developed a number of tools including pilot projects, workshops and guidance documents, these have not always reached clients or been tailored to their needs. Furthermore, the opportunity has not been taken to develop a government-wide data bank to be used as an information source for all participants and for aggregate reporting.

2.6 Aggregate reporting provides decision makers with the information necessary to ensure that the greening process is focussed, on schedule and moving toward the goal of sustainable development. In fact, reporting has been selective to date and no true aggregate report has been produced, nor do there appear to be any plans for such aggregate reporting in the future.



Evaluation in the Federal Government

Assistant Auditor General: Maria Barrados
Responsible Auditor: Stan Divorski

Chapter 3 – Main Points

- 3.1** Government has recognized the need for better information on program results to support decisions and to improve the way government works. Information on the “bottom line” of government programs requires disciplined measurement and analysis of program effectiveness. The need for studies of program effectiveness — commonly referred to as evaluations — is growing as a result of scrutiny being given to government programs.
- 3.2** A changed environment has created challenges for planning and conducting evaluations. A new Treasury Board review policy recognizes the responsibility of program managers for measuring program performance. The policy also recognizes that effectiveness measurement and analysis can come from a variety of studies, but does not make clear the standards that apply when such measurement and analysis is conducted as part of reviews other than evaluations.
- 3.3** The choice of evaluation topics in departments reflects decisions based largely on departmental interests and priorities. Evaluations continue to emphasize the needs of departmental managers — focussing on smaller program components and operational matters. These studies can provide valuable support to management. Good government also requires overall program effectiveness information for government decision making and broader accountability. This is not consistently provided. Departments have shown that they can respond to demands for information on the accomplishments of key programs. For example, we found they have made progress in assessing the effectiveness of programs that spend more than \$1 billion annually.
- 3.4** Departments, with the exception of some smaller ones, have maintained their levels of financial support for evaluation; however, certain key aspects of the management of evaluation in departments have not improved. The scope and quality of evaluations remain matters for concern.
- 3.5** Government has introduced measures with the potential to improve its planning of evaluation and to support continued progress in evaluating key programs. A renewed expenditure management system requires departments to submit business plans with priorities for reviews of their programs, including evaluations and internal audits. This approach has the potential to link departmental evaluation plans to the budgeting process. In the first year, about two thirds of the plans identified review priorities. However, the system is in the early stages of development. The government still needs to ensure that individual departments’ evaluation priorities reflect government’s evaluation priorities. In order to accomplish this, the government needs to state its evaluation priorities systematically, identify gaps in review activity and ensure that those gaps are filled.
- 3.6** The President of Treasury Board has submitted to Parliament a report on the performance of government review that is a promising first step. Future reports need to use more concrete measures and provide a more adequate picture of overall government success in measuring and analyzing the effectiveness of programs.



Internal Audit in Departments and Agencies

Assistant Auditor General: David H. Roth

Responsible Auditor: Bruce C. Sloan

Chapter 4 – Main Points

4.1 The government is going through a period of tremendous change, in which departments are being streamlined and restructured in an effort to reduce the administrative cost of government while maintaining or improving the delivery of government programs to Canadians. Although these changes may influence the nature and location of organizational controls, they have not lessened the need for the organization to be in control. Within this environment, the need for effective internal audit has never been more important to ensure that departmental programs and operations are properly managed.

4.2 An effective internal audit unit is a fundamental management tool. It can provide deputy ministers with assurances about the efficiency and effectiveness of key financial, administrative and operational activities and departmental management practices, along with suggestions for improvement.

4.3 The support of senior management is essential if internal audit is to be an effective, contributing part of an organization. To a great extent, the relationship between internal audit and senior management determines the respect internal audit receives from operating managers. We found that, while senior management expressed general support for the internal audit function, its perception of the role of internal audit was narrower than that of senior management in the private sector.

4.4 The Treasury Board Secretariat carries out a number of activities that it believes are designed to further the implementation and monitor the effectiveness of the internal audit policy, one element of the Review Policy. In our view, these efforts have not been sufficient to provide an assessment of the effectiveness of the government's internal audit policy.

4.5 While some internal audit units have improved their performance since 1993, we found that, overall, there has been little improvement since our 1993 audit. Of the seven departmental internal audit units we reviewed in detail, four do not meet established standards for the practice of internal audit.

4.6 We noted that internal audit coverage of computer systems under development has improved. However, further improvement is still needed in other areas if internal audit is to fulfill its potential.

4.7 To fulfill that potential, internal audit must improve the balance of the scope of its work, including both compliance and control issues and the assessment of the efficiency and effectiveness of departmental operations.

4.8 As part of our audit, we assessed the extent to which departments were using appropriate methods and techniques for measuring the effectiveness of their internal audit units — that is, their contribution to improving the way a department operates. We found that in 1993 virtually no audit units were measuring their own performance. However, approximately half of the audit units are now doing so in some way.



The Reform of Classification and Job Evaluation in the Public Service

Assistant Auditor General: Maria Barrados
Responsible Auditor: Jacques Goyer

Chapter 5 – Main Points

5.1 The reform of classification and job evaluation was one of the important systemic changes associated with public service renewal. Because of important links with other systems such as labour relations and pay administration, classification and job evaluation have been considered the “cornerstone” of human resource management in the public service.

5.2 In response to recommendations for change, the Treasury Board Secretariat undertook to develop a single job evaluation plan to replace the some 70 currently in use, and to reduce significantly the number of occupational groups and sub-groups into which jobs are classified. Given the difficult context, this was quite a challenging task.

5.3 Based on our assessment of the June 1995 version of the *Universal Classification Standard*, our audit concluded that, after some six years, the challenge posed by the reform has been only partially met:

- The new job evaluation plan developed by the Secretariat is a definite improvement and has many promising features, but a number of significant issues need to be addressed to ensure that it is a valid and reliable tool, capable of evaluating all jobs in the public service while meeting requirements for pay equity that stem from the *Canadian Human Rights Act*.
- Opportunities exist to simplify further and/or to reduce the costs of classification and job evaluation and some of the related systems and practices, such as pay administration.

5.4 While the Treasury Board Secretariat has undertaken the reform with a commitment to “cost neutrality”, we found that the cost and benefits of the reform were not known with any degree of precision.

5.5 At the conclusion of the audit the Secretariat was taking a number of important measures to address issues identified by the audit. The Standard has potential and can be made to work. Success will depend, however, on the willingness and ability of the stakeholders to work together to achieve the objectives of the reform at a reasonable cost to the taxpayer.



Peacekeeping — Foreign Affairs and International Trade Canada

Assistant Auditor General: Richard B. Fadden
Responsible Auditor: Vinod Sahgal

Chapter 6 – Main Points

6.1 Foreign Affairs and International Trade Canada views peacekeeping as central to Canada's foreign policy objective of protecting Canada's security within a stable global framework. Over the years, Canada has participated in most peacekeeping missions.

6.2 The nature of UN peacekeeping has changed dramatically in the post-Cold War era. Before, the main role of the United Nations (UN) was largely to monitor truce agreements between states. Now, the UN is increasingly called upon to carry out more complex missions that also involve a peace enforcement role both between and within states. As well, a role for civil-military co-ordination and co-operation has emerged.

6.3 The United Nations continues to be the key vehicle for pursuing Canada's global security objectives; however, it faces significant constraints in its ability to carry out its peacekeeping function effectively:

- The UN's management points out that member states collectively have not been prepared to adequately equip the organization to meet the additional challenges, as shown by experience in Somalia, Rwanda, Bosnia and Haiti.
- The Department points out that missions with unclear mandates and inadequate resources are unlikely to succeed, despite improvements in management practices at UN headquarters.
- Unlike Canada, a number of members are not paying their dues on time, with the result that peacekeeping funds are increasingly being used to defray the cost of the regular budget, which is also seriously in arrears.

6.4 Canada places a high priority on reform of the UN, and has worked on several proposals to improve the UN's effectiveness in peacekeeping. However, significant reforms require consensus of the 185-member General Assembly. Consensus on change has proved difficult to find.

6.5 The overall cost of peacekeeping to Canada, both financial and non-financial, is not aggregated in any public document. The financial costs have risen sharply in recent years, as a result of the increase in the number and size of missions, from about \$47 million in 1991–92 to an estimated \$240 million in 1995–96, an increase of 410 percent. The cost of participation in NATO peacekeeping in Bosnia and Canada's recent decision to send troops to Haiti will add to this increase.

6.6 The Department has no established procedure to carry out evaluations or "lessons learned" exercises in the area of peacekeeping from a foreign policy perspective. This increases the risk of not benefiting fully from the experience gained from previous participation.

6.7 Canada has recovered \$236 million of its peacekeeping costs from the UN during the last five years. Reimbursements estimated at \$92 million were receivable at 31 March 1996. The amount and timing of reimbursement recovery is largely dependent on the UN's cash position, the priority Canada gives to the collection function, invoices and supporting documentation and acceptance by the United Nations of amounts billed.

6.8 Informed decision making on peacekeeping matters would be enhanced by greater transparency and accountability. Also, the administration for reimbursements from the UN needs to be strengthened.



Peacekeeping — National Defence

Assistant Auditor General: David Rattray

Responsible Auditor: Peter Kasurak

Chapter 7 – Main Points

7.1 The Canadian Forces have achieved much in their peacekeeping operations and their missions have been marked by individual acts of dedication and bravery.

7.2 The Department of National Defence plans for peacekeeping missions in a fluid environment, often under severe time constraints. It has experienced gaps in its planning for deployments and rotations to missions. The Department, however, has improved its staff system to assess the likelihood of success of the overall mission, to assess the capability of the Canadian Forces to meet the requirements of a mission and to estimate the impact of a deployment on other commitments.

7.3 The Land Forces have retained soldiers in their field force who otherwise would have been cut as part of force reductions. This accounts for 1,600 of the 3,000 extra troops allowed by the government for peacekeeping. Little other increase has occurred to date. Overall, even in the most highly used categories, personnel have not been overtasked for peacekeeping duty. There are still many practical limitations to using the Reserves for peacekeeping.

7.4 Peacekeeping duty in the last few years has revealed serious problems in the Land Force's ability to generate multipurpose forces:

- The Land Force is not completing its collective training plans. Its most comprehensive training exercise was replaced by a much smaller exercise due to peacekeeping-related tasks. Many lower-level exercises planned in the last few years did not take place.
- Significant emergency buys were needed to provide minimum levels of equipment for troops deployed for peacekeeping. In 1995, National Defence concluded that long-standing deficiencies in its armoured vehicles would not allow troops to perform assigned missions within an acceptable level of risk.
- Departmental plans for medical support show that the Department's planned field hospital will not be enough to support the Land Force's operational plans.

7.5 The Department sent \$822 million in supplies and equipment to support the peacekeeping missions we studied. It recorded \$67 million in downward adjustments to stock balances and \$13 million of losses. During our audit, however, the Department could not find a significant portion of the required documentation, and the downward adjustments and losses remain largely unexplained.



Assistant Auditor General: David Rattray
Responsible Auditor: Reno Cyr

Canadian Security Intelligence Service

National Headquarters Building Project

Chapter 8 – Main Points

- 8.1 Since its creation in 1984, the Canadian Security Intelligence Service (CSIS) had needed a headquarters facility separate from its predecessor, the former Royal Canadian Mounted Police Security Service.
- 8.2 The completion of the new national headquarters building in 1995 has allowed CSIS to consolidate its headquarters and Ottawa Regional Office activities from ten separate facilities into one facility.
- 8.3 In our opinion, this project was well managed overall, as the national headquarters project was completed on time and within budget, and meets the functional needs of its users.
- 8.4 There are several success factors or lessons learned in this project that would benefit similar construction projects; one of those factors is the key role played by CSIS as the building's user.
- 8.5 We believe that the project team took appropriate steps to ensure that the completed facility provides a secure environment for CSIS employees and their activities.
- 8.6 The fact that the constructed gross area exceeded the original planned gross area by over 13,000 square metres, without exceeding the approved budget, raises concerns about how project budgets are calculated and about the effectiveness of Treasury Board control over its project approvals.
- 8.7 The redesign of the sixth floor, which was done despite the concerns of the project team and at an additional cost of approximately \$1.4 million, did not, in our opinion, significantly improve the functionality of the building.
- 8.8 We also noted contract prepayments made in advance of work, contrary to the *Financial Administration Act*, as well as inadequate wording in the contract documents for the architect, resulting in reduced accountability and increased costs.
- 8.9 We noted examples where, although no authorities or budgets were exceeded, additional funds could have been saved on this project.



Assistant Auditor General: Don Young
Responsible Auditor: Douglas Timmins

Agriculture and Agri-Food Canada

Animal and Plant Health: Inspection and Regulation

Chapter 9 – Main Points

9.1 Canada's relative freedom from animal diseases and plant pests and its high health standards have contributed significantly to our nation's ability to export annually over \$17 billion of agriculture and forestry products. International recognition of the health status of our domestic plant and animal resources is necessary to maintain access to export markets.

9.2 The changing global agricultural economy has increased the pressure on the Department to allow additional imports, increasing risk to Canada. The Department has responded by assessing the risk of imports and by reacting quickly to threats identified. At the same time, the Department has made extensive efforts to realign its business approach to health protection, while also responding to significant resource reductions.

9.3 The Department has developed a risk assessment process and, as a result, is recognized internationally as a leader in this area. The process provides the Department with a scientific basis to assist in making risk management decisions. Domestic health threats, regulated diseases, weeds and toxic substances have not been and will not be assessed in the foreseeable future, using this analytical tool, unless the emphasis shifts away from import trade-related activities. Consequently, the Department lacks sufficient reliable information to rank threats based on greatest risk, set priorities on a program-wide basis or demonstrate that it has made the best use of its available resources.

9.4 Program objectives have been expressed in measurable terms. However, management has developed few performance indicators or other summary information to allow parliamentarians to understand and assess planned and actual performance and departmental action in response to serious outbreaks of diseases and pests.

9.5 Over 1,100 managers, inspectors and laboratory staff deliver the Animal and Plant Health Program, at a cost of more than \$100 million a year. While the Department has acted on a number of opportunities for cost reduction and cost avoidance, it continues to operate the Program and to plan future activities without rationalizing the need for the existing level of resources.

9.6 Cost recovery has been implemented for some services previously provided without charge and will be expanded to others, to offset significant reductions in program funding. Considering the difficulties associated with maintaining industry competitiveness and international market access, with identifying beneficiaries and with developing a flexible and consultative approach to cost recovery, the Department has made progress over the short term. Our main concern is that the amounts currently being recovered fall at least 60 percent short of the full costs of delivering the service — service of which industry is the primary beneficiary.



Correctional Service Canada

Rehabilitation Programs for Offenders

*Assistant Auditor General: Maria Barrados
Responsible Auditor: David Brittain*

Chapter 10 – Main Points

10.1 Part of the mandate of Correctional Service is to rehabilitate offenders in its care. Since most of the 14,000 offenders currently incarcerated in federal penitentiaries will eventually be released to the community, many argue that this role is the most important part of the Service's mandate. It is particularly important when one considers that, historically, 28 percent of released offenders committed new offences after release.

10.2 Correctional Service spends approximately seven percent of its \$1 billion annual budget on programs targeted at factors that contribute to criminal behaviour. Traditional programs, such as education, vocational training and prison industries, focus on employability. Since 1988, intervention programs have been the main focus of the rehabilitation efforts of Correctional Service. These programs focus on factors such as sexual deviancy, substance abuse, and antisocial behaviour. Today, Correctional Service has designed an impressive series of intervention programs, some of which have received international recognition.

10.3 We noted weaknesses in the management of the \$34 million spent on intervention programs. The Service spends a disproportionate amount of its intervention program resources on two contracts without any assurance that the right offenders are being treated or any analysis indicating that the results being achieved justify their cost. For instance, 17 percent of the expenditure on sex offender programs is spent to treat 20 offenders, while the remaining 83 percent is spent on 1,800 offenders. For substance abuse programs, 16 percent of the expenditure is spent to treat 100 offenders, while the remaining 84 percent is spent on 5,000 offenders. Another weakness is that the Service has not fully established a continuum of programs to properly support offenders in their transition from the institution to the community. The Service is currently able to meet only 65 percent of demand for relapse prevention programs for sex offenders in the community.

10.4 There are also weaknesses in the management of the Service's traditional programs. CORCAN (the prison industry operation) is the Service's most expensive rehabilitation program, using more than \$100 million in the past four years. CORCAN jobs cost \$13,000 per full-time job in 1994–95, while basic education and vocational training cost about \$7,500 per full-time student. Furthermore, half of the offenders assigned to CORCAN did not necessarily need the skills being offered. Another concern is that over 95 percent of the Service's employability resources are focussed in the institutions, leaving very little to help offenders get a job once they return to the community. The Service does not have a coherent strategy to deal with offender employability. It cannot make the necessary trade-offs for resource allocation.

10.5 Correctional Service is committed to reintegration and has been successful in developing a wide range of intervention programs. However, there is a lack of attention by senior managers to determining the best match of resources to their overall objective of safe reintegration. To achieve this balance, the Service will require better information on the cost and benefits of its rehabilitation programs. Without such information, the Service lacks the capability to strategically reassess and reallocate its investment in rehabilitation programs.



Revenue Canada

Combatting Income Tax Avoidance

Assistant Auditor General: Shahid Minto

Responsible Auditor: Barry Elkin

Chapter 11 – Main Points

11.1 The cost of tax avoidance is not known. However, the results of Revenue Canada's program to combat it indicate that avoidance continues to pose a serious threat to the tax base. The Department expects the program to produce about \$365 million in reassessments in 1995–96.

11.2 The Department has undertaken certain specific initiatives to combat and deter tax avoidance. The operations in the district offices we visited have produced significant tax reassessments.

11.3 Preventing avoidance can produce significant tax revenue. Moreover, it is crucial to the integrity of the self-assessment system. Our report has identified areas where opportunities exist to streamline operations and strengthen accountability.



Veterans Affairs Canada

Health Care

Assistant Auditor General: Wm. F. Radburn

Responsible Auditor: John O'Brien

Chapter 12 – Main Points

12.1 Canada fulfills its obligation to its war veterans, in part, through programs offered by Veterans Affairs Canada. The main funded programs of the Department are pensions, economic support and health care. For the last 10 years, health care has been the fastest growing program of Veterans Affairs, increasing in cost by 149 percent over that period because of jurisdictional issues, expanded eligibility for programs, improved benefits and inflation, particularly in the late 1980s.

12.2 The Department has not yet developed a comprehensive plan to meet the future health care needs of its clients for the following reasons:

- It has limited information on its future health care population. There is a significant population of veterans and members of the armed forces who are potential eligible clients and who could be eligible for Veterans Affairs health care benefits.
- The Department does not have a forecast of the likely changes in future health care needs of its client population and the impact of these changes on the Department's programs.

12.3 Veterans Affairs is committed to reducing the turnaround time for first-level approval of pension applications from an average of 18 months to 9 months, within two years. In future, we intend to audit the Department's success in meeting this goal.

12.4 There is a long-standing unresolved issue between Veterans Affairs and some provinces over responsibility for providing certain health care benefits to income-qualified veterans. The Department has identified approximately \$50 million that it is paying annually for these health care benefits.

12.5 In our opinion, the Department has satisfactory controls over eligibility for health care benefits.

12.6 The Department does not have national guidelines for the quality of long-term institutional care. Control over the cost of delivery in contract institutions is deficient, with weak operating agreements, budgets often received after the beginning of the fiscal year and backlogs in conducting operating reviews.

12.7 In implementing changes designed to improve the efficiency of delivery of the Veterans Independence Program, Veterans Affairs did not fully comply with conditions established by Treasury Board that required continuation of a post-payment verification system. We found weaknesses in the health care needs assessment process, also required by Treasury Board. The Department does not have adequate empirical evidence to demonstrate the impact the Program has on recipients' health or on helping recipients live independently in their homes and communities.

12.8 The Department has saved money by implementing controls for the provision of non-drug services to clients. It has also identified the need to improve controls for drug benefits and is in the process of developing a plan to implement these controls in 1997. The Department estimates that it could save \$7 million annually and improve the quality of care by implementing improved controls. In addition, the Department's method of controlling over-the-counter drugs is costly.

Chapter 1

Other Audit Observations

The work that led to other audit observations was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Other Audit Observations

Main Points

1.1 The *Auditor General Act* requires the Auditor General to include in his Reports matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

1.2 The “Other Audit Observations” chapter fulfils a special role in the Report. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments; or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

1.3 The chapter normally contains observations concerning departmental expenditures and revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

1.4 Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.

1.5 Observations reported cover the following:

- the lack of clarity about results expected from a \$7.5 million community adjustment initiative; and
- serious concerns about the administration of the *Income Tax Act* involving the movement out of Canada of at least \$2 billion of assets held in family trusts.

Introduction

1.6 This chapter contains matters of significance that are not included elsewhere in the Report and that we believe should be drawn to the attention of the House of Commons. The matters reported were noted during our financial and compliance audits of the Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

1.7 Section 7(2) of the *Auditor General Act* requires the Auditor General to call to the attention of the House of Commons any significant cases where he has observed that:

- accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property; to secure an effective check on the

assessment, collection and proper allocation of revenue; and to ensure that expenditures have been made only as authorized;

- money has been expended for purposes other than those for which it was appropriated by Parliament;
- money has been expended without due regard to economy or efficiency; or
- satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented.

1.8 Each of the matters of significance reported in this chapter was examined in accordance with generally accepted auditing standards; accordingly, our examinations included such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions about matters not examined. The instances that we have observed are described in this chapter under the appropriate department headings.

This chapter contains a number of observations on matters of significance not included elsewhere in the Report.

Atlantic Canada Opportunities Agency

Assistant Auditor General: Wm. F. Radburn

Responsible Auditor: John O'Brien

Concerns about a community adjustment initiative

The Atlantic Canada Opportunities Agency is the federal department responsible for adjustment initiatives designed to assist communities affected by the reduction of military infrastructure in Atlantic Canada, including the closure of Canadian Forces Base Cornwallis in Nova Scotia. The Agency established the Cornwallis Park Development Association, a non-profit society, to implement a community adjustment initiative. The Agency did not clearly establish the results expected from this initiative, nor did it determine, on a timely basis, the activities eligible for funding through a \$7.5 million contribution agreement with the Association. Important conditions were not included in the contribution agreement, such as the requirement for the recipient to develop and use conflict-of-interest guidelines in the expenditure of funds provided by the Agency, and the definition of specific eligible costs. The Agency did not receive a business plan from the Association until fourteen months following its creation. During that period, the Agency provided the Association with \$2.7 million, or 36 percent of its approved funding. The Association spent these funds primarily on facilities administration, operation and maintenance, and capital improvements.

Background

1.9 The February 1994 Budget announced the closure or reduction of seven military establishments in Atlantic Canada, including the closure of Canadian Forces Base Cornwallis in Nova Scotia. As part of the government's multidepartmental strategy for the military infrastructure reduction in Atlantic Canada, the Atlantic Canada Opportunities Agency (the Agency) was assigned responsibility for co-ordinating federal efforts to support the affected communities. This included responsibility for establishing measures to assist community adjustment efforts. The Department of National Defence was responsible for co-ordinating the interim custodianship of the former base assets and was to manage the infrastructure

disposal process through Public Works and Government Services Canada.

1.10 On 9 June 1994, the Treasury Board approved Agency funding of \$30 million for base closure community support in Atlantic Canada. For the Canadian Forces Base Cornwallis closure, the maximum funding allowed was set at \$7.5 million. In its approval, the Treasury Board attached terms and conditions to provide a framework for developing contribution arrangements with eligible recipients. These terms and conditions authorized the Agency to fund local development agencies based on detailed agreements that specified how funds were to be advanced, expended and accounted for.

1.11 On 29 July 1994, the Agency established a local development agency,

Cornwallis Park Development Association (the Association), to provide a focus for economic development opportunities for the affected communities and a vehicle to take legal title and ownership of base assets identified as having a potential viable reuse. The Association was incorporated as a non-profit society in the province of Nova Scotia. As provided for in the bylaws of the Association, the Minister responsible for the Atlantic Canada Opportunities Agency appointed the Chairman of the Cornwallis Park Development Association.

1.12 On 16 August 1994, the Agency entered into a contribution agreement with the Association to fund its activities for five years, up to a total of \$7.5 million.

1.13 On 30 March 1995, National Defence entered into a lease with the Association that effectively transferred control and responsibility for the former base and all remaining assets to the Association as of 1 April 1995.

1.14 On 27 April 1995, the Treasury Board approved the sale of the former base to the Association, at a nominal value of \$1. The rationale for the sale of the assets for \$1 was that the market value of the fixed assets was less than the cost to sell. In addition, National Defence was to pay a lump sum grant of \$6 million to the Association in recognition of the cost to demolish base assets having no further use. National Defence remained responsible for the clean-up of any existing adverse environmental conditions. The sale was finalized on 31 January 1996. We have been informed by National Defence that the military police are investigating concerns about the removal of assets from the base prior to the transfer of ownership.

1.15 We conducted an audit of the Agency's involvement in the community

adjustment initiative with the objective of assessing the adequacy of its controls over this initiative. We did not audit the activities of the Cornwallis Park Development Association.

Issues

1.16 The contribution agreement between the Agency and the Association established the conditions for funding the Association's activities. The agreement did not include a requirement for the Association to develop and use guidelines for avoiding conflict of interest in the expenditure of funds provided by the Agency. This was a specific condition required by the Treasury Board.

1.17 In addition, the agreement did not include the following conditions that we would have expected to see:

- It did not clearly establish indicators of economic development results expected from the Association's activities.
- It did not require the Association to prepare a plan or any other document, such as an annual budget, that established the Association's strategic direction and planned activities.
- It did not establish a definition of specific costs eligible for Agency funding. This made it very difficult for the Agency to determine which of the Association's expenditures should be funded.

1.18 In approving Agency funding, the Treasury Board specified that the Association could not receive funding for costs incurred for the management and maintenance of base assets. The Agency included a clause in the agreement that restricted its funding to those costs necessary to support assets that were economically reusable in the short term. However, we noted that Agency funding was spent primarily on facilities administration, operation and maintenance

and capital improvements. Agency officials have informed us that the purpose of these expenditures was to control long-term operating costs and prevent the deterioration of certain former base assets.

1.19 Agency officials have indicated to us that the arrangement with the Association was designed to give it latitude in determining and meeting the local economic development needs. Payments to the Association were based on incurred expenditures and three-month forecasts. The Association received \$2.7 million or 36 percent of its approved Agency funding by 15 August 1995. Of this amount, \$1.6 million was advanced to the Association so that it could operate a sea cadet summer camp that was subsequently fully funded by National Defence. The Association incurred additional, eligible costs not related to the sea cadet camp, which the Agency applied against the \$1.6 million advance. As of 30 November 1995, the Association reported that it had incurred a total of \$3.2 million in eligible costs, \$0.5 million more than it had received from the Agency. We are concerned that the Agency did not receive an overall strategy for the proposed use of its funding until it received a business plan on 1 December 1995 — fourteen months after creation of the Association.

1.20 In late August 1995, after receiving a request for an additional \$2.4 million in funding, the Agency conducted a review of the Association's operation. As a result of the review, on 11 September 1995 the Agency notified the Association that it had discontinued further funding until the following key conditions were met:

- the completion of an acceptable business plan;

- establishment of an acceptable division of duties between staff and the Board of Directors of the Association;

- development of acceptable written operating procedures, approved by the Board of Directors and covering, at a minimum, the hiring, tendering and purchasing practices of staff; and

- a longer-term financial forecast for the disposition of revenue from operations and the \$6 million grant from National Defence.

1.21 The Association has responded to the Agency's conditions. However, key aspects of the plan are still dependent on additional studies and planning. For example, the business plan identifies the need to develop a long-term master plan for facilities. This plan is projected to be completed by December 1996.

1.22 The Agency has informed us that, at a meeting held on 26 March 1996, the Board of Directors of the Association approved guidelines for avoiding conflict of interest in the expenditure of funds provided by the Agency.

1.23 In January 1996, the Agency resumed funding for this initiative, after implementing additional controls on the processing of claims and provision of advances. Since then, \$150,000 in additional funding has been disbursed by the Agency.

Conclusion

1.24 The Agency has not established clear expectations of what it plans to achieve through the funding of the Association. Further, the Agency did not receive a business plan describing the Association's intentions until \$2.7 million in Agency funding had been spent.

1.25 The Agency failed to include important conditions in the contribution agreement with the Association and did

not fully comply with Treasury Board guidance in its arrangements with the Association.

Agency's comments: *It is a major challenge for a local development group to transform a large military base, with annual expenditures of over \$30 million and 565 employees, into new, sustainable jobs for its citizens. The Cornwallis Park Development Association (CPDA) took on that challenge. This was not an audit of the CPDA, and therefore it does not address a number of the allegations that have been made over past months. As the Auditor General points out, the military police are investigating concerns about the removal of assets from the base prior to the transfer of ownership.*

The CPDA has made considerable progress; yet as the Auditor General points out, further improvements are needed. Already CPDA has secured a \$2.0 million annual contract to operate a sea cadet training facility, has restructured the Park's utilities operation to limit operating costs, has leased a number of buildings to new tenants and is pursuing several large new development opportunities. CPDA has prepared a long-term business plan and the Nova Scotia office of ACOA is working with CPDA to strengthen its results-targeting capabilities. Strict conflict-of-interest guidelines have been adopted by the CPDA Board. Further refinements of the guidelines for costs eligible for ACOA funding are being negotiated by the Nova Scotia office and will be incorporated in a revised contribution agreement with CPDA.

Revenue Canada

Assistant Auditor General: Shahid Minto

Responsible Auditor: Barry Elkin

Serious concerns about the administration of the *Income Tax Act* involving the movement out of Canada of at least \$2 billion of assets held in family trusts

When taxpayers contemplate transactions for which the tax treatment is uncertain, they can request an advance ruling from Revenue Canada. Advance rulings guarantee the income tax effect of the contemplated transactions. We have observed two advance rulings relating to moving at least \$2 billion of assets held in family trusts into the United States from Canada. In our view, the transactions ruled on may have circumvented the intent of the law regarding the taxation of capital gains. Therefore, we are concerned that Revenue Canada may have eroded the tax base by forfeiting a legitimate future claim to many millions of dollars in tax revenue. As well, we are concerned about the lack of documentation and analysis of key decisions made by the Department and the potential impact of those decisions. Furthermore, because the rulings were not made public until recently, other taxpayers may have been denied the benefit made available to those who received the rulings.

Background

1.26 Revenue Canada provides advance income tax rulings to facilitate voluntary compliance with the *Income Tax Act*, uniformity of application of the law and self-assessment by taxpayers. Advance income tax rulings provide certainty to a taxpayer by guaranteeing the income tax effects of specific transactions contemplated by the taxpayer. They are generally provided in situations where the tax treatment is uncertain.

1.27 The processing of requests for advance rulings requires expert analysis of tax law and policy. In determining its position, Revenue Canada consults at times with the Department of Finance to seek its views on the tax policy intent behind various tax provisions. It also consults with the Department of Justice for its legal interpretation of the provisions. While Revenue Canada may

seek the views of others, it is responsible for administering the law.

The taxation of capital gains

1.28 The Canadian income tax system is complex, but there are certain basic principles on which the system is founded. One principle is that income tax is applied on the basis of residency. Another principle is that there is tax on capital gains, a particular form of income from property.

1.29 With certain exceptions, the intent of the *Income Tax Act* is that capital gains accrued after 1971 on property held by residents of Canada are subject to taxation. During the lifetime of a resident of Canada, when a property is disposed of and a gain is realized the gain is taxed. Generally, when a resident of Canada dies, gains on property holdings are deemed to be realized and are taxed accordingly. Gains on certain property holdings are also deemed to be realized and are taxed

when a person leaves Canada to take up residence elsewhere. When the tax system is viewed in these simple terms, one can see that it should not be possible to escape tax on capital gains.

1.30 For a trust that is resident in Canada, when it moves property out of Canada the general rule is that capital gains accrued since 1971 on that property are deemed to be realized and are taxed accordingly. An exception is made for a class of property known as “taxable Canadian property”. The rationale for the exception is that Canada still retains its right to tax capital gains on that property (subject to possible exemption under a tax treaty) when those capital gains are actually realized, even though the property is held by a non-resident. In other words, the interests of Canada are still protected; the tax base is not eroded.

1.31 However, only a certain type of property owned by a trust is included in “taxable Canadian property”. Generally, the nature of that type of property is such that Canada will be able to enforce its claim to any tax revenue. The prime example is real estate situated in Canada. Private company shares are also classified as “taxable Canadian property”. In contrast, shares in a public company are not generally classified as “taxable Canadian property”. The law allows an individual and a corporation resident in Canada who leave Canada to elect to have public company shares become “taxable Canadian property” upon giving satisfactory security to the Minister of

National Revenue. Trusts are specifically prohibited from making this election.

1.32 We have observed two significant favourable advance income tax rulings relating to moving at least \$2 billion of assets held in family trusts into the United States from Canada.

1.33 A 1985 advance income tax ruling said that public company shares could leave Canada on a tax-free basis. In 1984, an accounting firm asked for an advance income tax ruling on behalf of a client. The essence of the ruling it requested would be a declaration by Revenue Canada that it would consider public company shares held by a trust to be “taxable Canadian property” and that a change in residence of the trust, therefore, would not cause a deemed realization of capital gains on the shares.

1.34 Revenue Canada ruled that the public company shares held by the trust could leave Canada on a tax-free basis because they would be considered “taxable Canadian property”. The ruling, which was issued in January 1985, is shown in Exhibit 1.1.

1.35 A 1985 income tax opinion on a similar case said that public company shares would be subject to tax on leaving Canada. One week after issuing the 1985 advance income tax ruling, Revenue Canada received a request for an opinion (an opinion is not binding on Revenue Canada, whereas a ruling is) from another accounting firm, in a case where the circumstances were comparable. In May 1985, an opinion was

Our ruling is that the trust will not be deemed by subsection 48(1) of the Act to dispose of its shares in the public corporations which it acquired as a result of an exchange of its ownership in shares of a private corporation when it ceases to be resident in Canada because those shares will constitute taxable Canadian property within paragraph 85(1)(i) and subparagraph 115(1)(b)(iii) of the Act.

Exhibit 1.1

The Technical Wording of the 1985 Advance Income Tax Ruling

issued to the effect that public company shares could not be considered "taxable Canadian property" to a resident of Canada. The opinion and the ruling were both issued by the Non-Corporate Rulings Division. The opinion is shown in Exhibit 1.2.

1.36 We attempted to review the analysis supporting the opinion. We were informed that the file contains only the request for the opinion and the opinion itself. There is nothing in the file to support the reasoning behind the opinion. Revenue Canada advised us that it now considers the opinion to be technically incorrect. At the completion of our audit, the accounting firm had not been advised of this.

1.37 A 1991 advance income tax ruling again said that public company shares could cross the border on a tax-free basis. In 1991, Revenue Canada

issued an advance income tax ruling to a legal firm on behalf of another trust related to the parties who had received the 1985 advance income tax ruling. While some of the details are different, the main issues are identical to those in the 1985 advance income tax ruling.

1.38 The 1991 ruling dealt with the income tax consequences for a trust that would cease to be resident in Canada and would become resident in the United States (this trust is referred to as "Protective Trust" in the ruling). Shortly after it became resident in the United States it would receive public company shares from a trust resident in Canada (this trust is referred to as "Family Trust" in the ruling). In this instance, however, the trust leaving Canada had been in existence for less than 10 years. Because of a provision in the tax treaty between Canada and the United States, this meant Canada would have no right to tax the accrued capital

Exhibit 1.2

The 1985 Income Tax Opinion

You request our views with respect to the meaning of "taxable Canadian property" in the context of a distribution by a resident trust to a non-resident beneficiary of shares which were acquired by the trust in an exchange to which section 85.1 of the Act applied. You suggest that, if the particular shares were acquired in exchange for shares which represented 25 percent or more of the issued shares of a class of capital stock of a "public corporation" such shares would constitute taxable Canadian property of the trust by virtue of paragraph 85.1(1) and subparagraph 115(1)(b)(ix) of the Act.

We do not agree. You point out, the general scheme of the Act contemplates the ownership of taxable Canadian property with reference to non-residents (e.g. in paragraph 48(1)(a) of the Act which refers to "... any property ... that would be taxable Canadian property if at no time in the year he had been resident in Canada ..."). Similar wording is found in subsection 107(5), and subparagraph 108(1)(d.1)(ii) of the Act. In this context, we do not agree that paragraph 133(1)(c) of the Act contemplates the ownership of taxable Canadian property by a resident of Canada. It clearly contemplates two situations; the one to which you refer contemplates a corporation not resident in Canada (presumably a pre-April 26, 1985 incorporation).

The provisions of subsection 107(5) of the Act, like the provisions of subsection 48(1) of the Act, permit the deferral of the recognition of the gain or loss on the disposition (or deemed disposition) in respect of property that, when ultimately disposed of, will normally be recognized for Canadian tax purposes (subject to applicable treaty protection). In this regard, we are therefore also of the view that the shares, which you describe, would not be considered taxable Canadian property in the hands of the non-resident beneficiary merely because they were acquired by the trust as described above.

gain on the shares that moved to the United States when that gain is realized by the Protective Trust.

1.39 In giving a favourable ruling, Revenue Canada accepted the taxpayer's representation that the public company shares held by the Canadian Family Trust constituted "taxable Canadian property". This representation was based on an earlier transaction in which the trust had received the public company shares in exchange for private company shares.

1.40 Before issuing the ruling, Revenue Canada was fully aware of the risk (outlined in paragraph 1.38) presented by the then-proposed transaction. The advance ruling was issued subject to the condition that the taxpayer provide an undertaking and a waiver (see Exhibit 1.3).

1.41 The trust moving to the United States (Protective Trust) provided an undertaking that if it sold the shares within 10 years from the date it became a resident of the United States, it would not invoke the provision in the Canada-U.S. tax treaty that could enable it to escape Canadian income tax completely on the capital gain accrued to the date it left Canada.

1.42 The Family Trust provided a waiver effective for 10 years that would allow Revenue Canada to reassess it. Revenue Canada's files and the waiver show that if the Department exercised the waiver it would have to reverse its previous position and issue a reassessment on the basis that the public company shares were not "taxable Canadian property" and that the accrued capital gain should therefore have been subject to tax in Canada when the shares left in 1991.

1.43 The 1991 advance income tax ruling is shown in Exhibit 1.3; Exhibit 1.4 is a chronology of the key events leading

up to the issuance of the ruling; and Exhibit 1.5 shows the transactions entered into by the taxpayer.

Issues

The transactions may have circumvented the intent of the law

1.44 As we have noted, the general rule for a trust resident in Canada is that when it moves property out of Canada there will be a deemed realization of capital gains accrued since 1971 on that property. An exception is made for a class of property known as "taxable Canadian property". Generally, public company shares are not considered "taxable Canadian property".

1.45 Some years before the 1991 ruling, the Family Trust had received the public company shares in exchange for private company shares. At the time of the exchange, both trusts were resident in Canada. The section in the *Income Tax Act* (paragraph 85(1)(i)) that characterizes public company shares as "taxable Canadian property" when they are exchanged for private company shares clearly applies to non-residents. Revenue Canada had to decide whether this provision applied to residents as well. In the end, supported by advice from the Department of Finance, Revenue Canada's view was that residents could hold "taxable Canadian property".

1.46 This advice was based on one paragraph in the *Income Tax Act*, paragraph 97(2)(c). That paragraph, dealing with Canadian partnerships, parallels other rollover provisions in the Act but its purpose appears unclear. Read literally, and in context with section 102 of the Act, however, the paragraph suggests that a Canadian resident can have "taxable Canadian property". At the same time, there are several other provisions in the Act that strongly suggest that the

overall scheme of the Act contemplates the ownership of “taxable Canadian property” only by non-residents: for example, subsections 107(5) and 115(1) and section 128.1. As well, the paragraph in the Act that characterizes public company shares as “taxable Canadian property” when they are exchanged for private company shares (paragraph 85(1)(i)) was intended to prevent a non-resident from avoiding Canadian tax.

1.47 We note that the 1985 income tax opinion (Exhibit 1.2) makes a convincing argument that the general scheme of the Act contemplates the ownership of “taxable Canadian property” only by non-residents. In our view, the transactions ruled on in 1991 may have circumvented that intent by characterizing public company shares held by a resident of Canada as “taxable Canadian property”

and thereby avoiding tax when those shares crossed the border. Furthermore, we believe the transactions circumvent the overall intent of taxing the accrued capital gains on property, other than “taxable Canadian property”, when that property leaves Canada.

The ruling may have forfeited a future claim to significant tax revenue

1.48 Documents contained in Revenue Canada’s files indicate that, over the two months during which the ruling request was considered, officials concluded repeatedly that the Department should not rule favourably.

1.49 However, during a series of meetings on 23 December 1991, senior officials of Revenue Canada authorized a favourable ruling. Revenue Canada advised us that its files do not contain any minutes of these meetings or additional

Exhibit 1.3

The Technical Wording of the 1991 Advance Income Tax Ruling

Although the ruling does not state that the public company shares are “taxable Canadian property”, Revenue Canada would not have given the ruling had it not agreed with this. As in the 1985 ruling, the underlying assumption is that because the public company shares were received in exchange for private company shares, the public company shares are “taxable Canadian property”.

Provided that:

- Family Trust provides the District Office of Revenue Canada with a valid waiver pursuant to subparagraph 152(4)(a)(ii) (a copy of which will also be provided to the Rulings Directorate), effective for ten years after the taxation year in which the shares of Public Co. are distributed by Family Trust to Protective Trust, with respect to the application of subsection 107(5) in the taxation year of Family Trust in which the distribution is made and said waiver is not revoked within the ten-year period,
- Protective Trust provides an undertaking that for a period of 120 months commencing on the date Protective Trust becomes a resident of the United States, Protective Trust shall not invoke protection under the Canada–United States Tax Convention (1980) (the Treaty) regarding any accrued capital gains on the distributed Public Co. shares, namely, the provisions of Article XIII(4) of the Treaty, and consequently no claim will be made under paragraphs 110(1)(f) and 115(1)(d) of the Income Tax Act, in respect of any disposition (including a deemed disposition) of the distributed Public Co. shares,

Our rulings are as follows:

- We confirm that Family Trust will be deemed to dispose of the distributed Public Co. shares for an amount determined in accordance with paragraph 107(2)(a) and Protective Trust will be deemed to have acquired such shares at a cost determined pursuant to paragraph 107(2)(b).
- Subsection 107(5) will not be applicable to the distribution of the Public Co. shares by Family Trust to Protective Trust.
- Protective Trust will not be deemed by subsection 48(1) to have disposed of its interest in Family Trust when it ceases to be resident in Canada.

Exhibit 1.4

**Chronology of the Key Events
Leading up to the Issuance of
the 1991 Advance Income Tax
Ruling**

1991	
March 8	Request for ruling is received. The purposes of the proposed transactions are to avoid the deemed disposition at fair market value under the 21-year rule and to avoid a deemed disposition on the death of a beneficiary. This request is withdrawn and replaced with a ruling requested on 7 November 1991, as amended.
November 7	Request for ruling is received.
November 25	The taxpayer's representative provides Revenue Canada with a copy of the 1985 advance income tax ruling referred to in Exhibit 1.1.
December 3	Revenue Canada advises Finance of the proposed transactions and that it intends to refuse to grant a favourable ruling and, if necessary, to bring the matter before the general anti-avoidance rule committee to recommend that subsection 245(2) be applied to the transaction.
December 6	Revenue Canada and Department of Finance officials meet to discuss the issues raised in the 3 December letter. No recommendation is made about what should be done.
December 12	Revenue Canada's rulings review committee decides that a favourable ruling should not be provided.
December 12	Revenue Canada advises Finance that it will not rule and requests Finance to leave the interpretation of the Act to it.
December 16	The taxpayer's representatives are advised that a favourable ruling will not be provided. They offer to provide a waiver and a statement that they will not dispose of the shares for five years.
December 18	Revenue Canada informs the taxpayer's representatives that it cannot accept their offer of 16 December 1991. The representatives offer to not use the provisions in the tax treaty between the United States and Canada that would allow the taxpayer to escape Canadian tax completely.
December 18	A memorandum is prepared for the Assistant Deputy Minister of Revenue Canada advising the Deputy Minister that the Department is unable to rule favourably. (We asked Revenue Canada when the memorandum was sent to the Deputy Minister and when he was first advised of the ruling request. We were advised that there is no information in the file as to when the Deputy Minister was first advised.)
December 19	Draft legal opinion is received.
December 20	Senior officials decide that a memorandum prepared for the Deputy Minister should be revised.
December 23	A revised memorandum is prepared for the Deputy Minister advising that the taxpayer's proposal is not acceptable because it is the Department's view that when the public company shares are transferred out of Canada, tax would be triggered. The letter suggests possible alternatives to the taxpayer's proposal.
December 23	Senior officials meet twice. (There are no minutes of the meetings in the file. We asked Revenue Canada to provide us with details of the meetings. Revenue Canada advised us that it had examined its files and did not find any additional information or details about the meetings.)

Exhibit 1.4 (Cont'd)

December 23	Senior officials meet with Department of Finance officials. (There are no minutes of the meeting in the file. We asked Revenue Canada and the Department of Finance to provide us with details of the meeting. Both departments advised us that they had examined their files and did not find any additional information or details about the meeting.)
December 23	Senior officials meet again. (There are no minutes of the meeting in the file. We asked Revenue Canada to provide us with details of the meeting. Revenue Canada advised us that it had examined its files and did not find any additional information or details about the meeting.)
December 23	The rulings officer is advised that the decision has been made to accept an undertaking and a waiver and to rule favourably. This is notwithstanding the fact that Revenue Canada is aware, based on court cases, that there is some uncertainty about the validity and enforceability of the undertaking. Revenue Canada decides that the taxpayer would not renege on the agreement because doing so would hurt its position in future dealings with the Government of Canada.
December 23	Revenue Canada receives a letter from the Department of Finance discussing the policy intent of certain provisions in the law crucial to the case at hand. These provisions deal with "taxable Canadian property". The letter concludes that in policy terms, residents may own "taxable Canadian property". The letter is used to provide Revenue Canada with some comfort to support its decision to rule favourably.
December 23	The taxpayer's representatives are advised that the Department will accept an undertaking and a waiver and rule favourably.
December 24	The ruling is issued and the waiver and undertaking are received.
1992	
January 13	Legal opinion is received.

details about them. The Department of Finance advised us that, for the meeting it attended on 23 December, its files also do not contain any minutes of, or additional details about, the meeting. We note that the senior Revenue Canada official responsible for rulings did not attend the meetings. Some analysis was prepared after the fact to justify the ruling.

1.50 The analysis supporting Revenue Canada's interpretation of the law was based on a letter dated 23 December 1991 from the Department of Finance. Finance told us that it was unable to locate any documentation to support the conclusions reached in the letter or on their potential

fiscal impact. The letter concluded that the law intends that both resident and non-resident taxpayers can hold "taxable Canadian property". As we have noted, based on this advice Revenue Canada concluded that the public company shares were "taxable Canadian property".

1.51 Whether or not the particular shares ought to be considered "taxable Canadian property" was ambiguous, due to the complex nature of the *Income Tax Act* provisions where the term is used. Also, as we have noted, if Revenue Canada acted on the waiver it would have to try to sustain a reassessment on the basis that the shares were not "taxable

Exhibit 1.5a

Transactions Entered into by the
Taxpayer – Original Structure

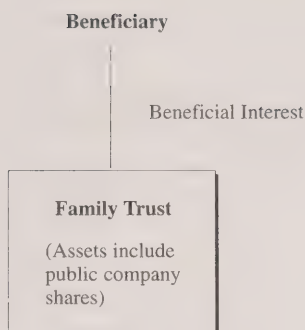
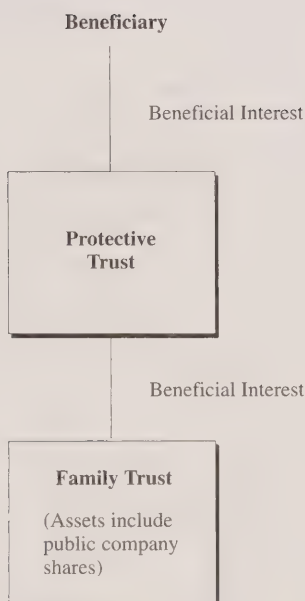


Exhibit 1.5b

Transactions Entered into by the
Taxpayer – Step 1

*Completed prior to the request for
the 1991 advance income tax
ruling.*



*The Beneficiary's interest in the
Family Trust is transferred on a
tax-free basis to the Protective
Trust, in exchange for a beneficial
interest in it.*

Exhibit 1.5c

Transactions Entered into by the
Taxpayer – Step 2

*The Beneficiary and the Protective
Trust move to the United States*

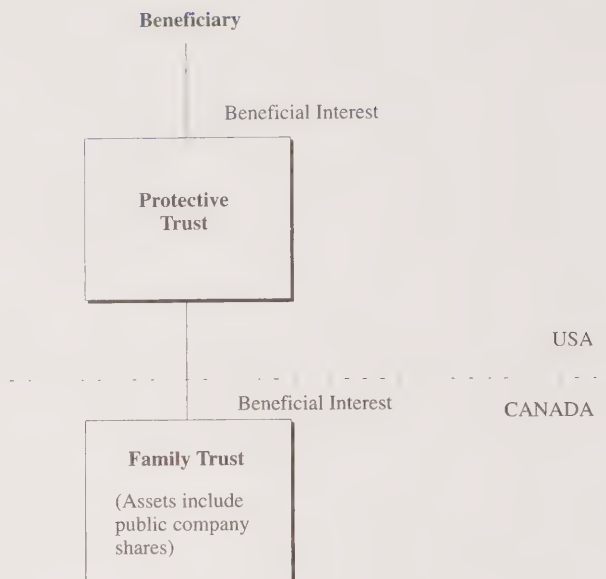
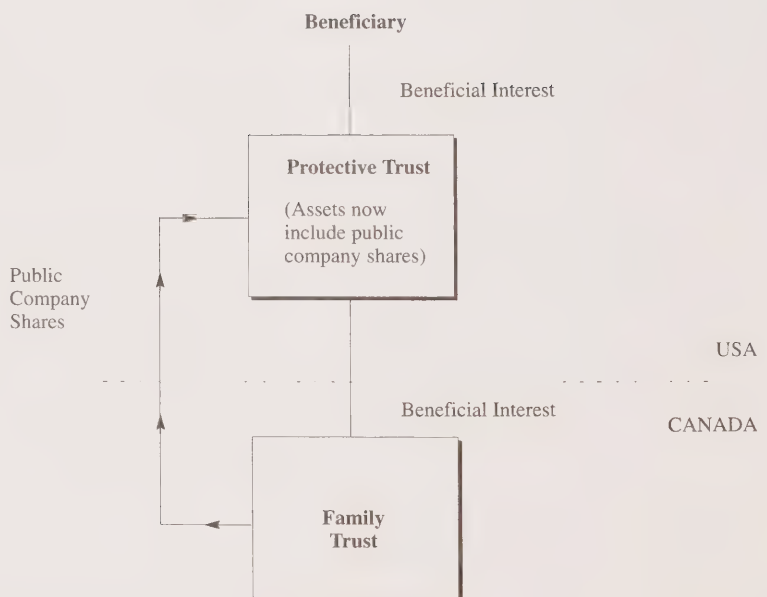


Exhibit 1.5d

Transactions Entered into by the
Taxpayer – Step 3

*Family Trust distributes public
company shares to the Protective
Trust*



Canadian property". The issue can be settled only by the courts, should a relevant case some day be litigated.

1.52 By accepting the taxpayer's representation that the shares were "taxable Canadian property", Revenue Canada may have guaranteed the complete elimination of Canadian income tax in the future on capital gains on property of enormous value. It is unlikely that, without the ruling, the proposed transactions would have proceeded and triggered an immediate tax. However, we are concerned that Revenue Canada may have eroded the tax base by forfeiting a legitimate future claim to hundreds of millions of dollars in tax revenue.

1.53 Furthermore, we would have expected Revenue Canada's files to contain minutes of the meeting held with the Department of Finance officials and some analysis of why Revenue Canada officials accepted the advice given. This is particularly important in this situation, given the amounts involved and the fact that the advice received from the Department of Finance caused Revenue Canada to change its position. We also would have expected Revenue Canada's files to contain at least some analysis of the potential impact on other sections of the *Income Tax Act* as a result of accepting the Department of Finance's advice. We believe that without a documented appropriate analysis, public accountability for these types of decisions is compromised.

The advance ruling was applied to a completed transaction

1.54 The 1991 ruling was based on the view that, because the public company shares were acquired in exchange for private company shares, they were "taxable Canadian property". This was one of the key issues to be resolved before

the ruling was issued. However, the exchanges were completed transactions. While the ruling technically was not given on whether the shares were "taxable Canadian property", that was the essence of the ruling. Minutes of meetings and deliberations of rulings officials, the undertaking, the decision of the rulings review committee and the memorandum to the Deputy Minister all confirm this.

1.55 Revenue Canada's Information Circular 70-6R2 states that "advance income tax rulings will be given only on proposed transactions". Completed transactions are normally dealt with by audit. Although audit officials had not reviewed the exchange transaction to determine if the public company shares were "taxable Canadian property", rulings officials concluded that they were.

The undertaking and the waiver have limited value

1.56 Revenue Canada's files show it was concerned that the taxpayer might undertake further undisclosed transactions, particularly ones designed to avoid tax. To address this concern, the taxpayer provided an undertaking and a waiver as a condition of receiving the 1991 advance income tax ruling.

1.57 Revenue Canada advised us that the undertaking given, together with the waiver, reinforced the fact that the proposed transactions were not designed to avoid tax. The Department stated that this resolved any concerns about future transactions where the application of the general anti-avoidance rule could be considered, and provided it with a measure of protection should the facts change in the future.

1.58 We agree that the undertaking and the waiver provided the Department with some comfort to support the favourable ruling. However, the scope of

the waiver was limited and would permit Revenue Canada to reassess only on the basis that the public company shares were not “taxable Canadian property”. But the ruling accepted the argument that the shares were indeed “taxable Canadian property” and could therefore move to the United States on a tax-free basis. To act subsequently on the waiver, Revenue Canada would have to try to sustain a reassessment on the basis that the shares were not “taxable Canadian property”. If Revenue Canada was prepared to use that argument in the future if necessary, it must have considered the argument valid when it issued the ruling.

1.59 Furthermore, Revenue Canada knew that the undertaking provided little protection, since it was aware of relevant jurisprudence that had ruled such documents unenforceable. The memorandum prepared for the Deputy Minister also advises that an undertaking would not be enforceable if the taxpayer later reversed its position and claimed protection under the Canada-U.S. tax treaty. The documents show that the Department decided the taxpayer would not renege on the agreement because doing so would hurt its position in future dealings with the Government of Canada. We also note that for the undertaking to have any value, the trust would have to believe that Revenue Canada could convince a court that the public company shares were not “taxable Canadian property”. The waiver and the undertaking were not supported with security.

Other taxpayers may have been denied the benefit made available to those who received the rulings

1.60 The legal firm that requested the 1991 advance income tax ruling had a copy of the 1985 advance income tax ruling that had been given to an accounting firm. This provided it with an

advantage over others who were not aware of the 1985 advance income tax ruling. The accounting firm that received the opposite income tax opinion in 1985 may not have been aware of the advance ruling that same year and may not now be aware of the 1991 ruling. We also note that the 1985 opinion is in the public domain.

1.61 In 1993 we recommended that Revenue Canada release, in severed form, issued advance income tax rulings. Revenue Canada has released some rulings, although it chose not to release the rulings discussed in this observation at the time they were issued. The 1991 ruling was issued in severed form, in March 1996.

1.62 In November 1995, during the course of our work on this observation, Revenue Canada announced that it plans to release all rulings in severed form. We support this position. Advance income tax rulings are an important part of the tax administration process. Making them available should result in a more consistent and uniform application of the law among taxpayers and should improve the transparency of the tax system. Transparency not only assists taxpayers and their advisors but also helps parliamentarians and the public understand how tax law is used and how it works. Transparency should also improve accountability.

Conclusion

1.63 This audit observation raises serious concerns about the administration of the *Income Tax Act*. Advance rulings are an important part of the tax administration process. They provide certainty to a taxpayer by guaranteeing the income tax effect of contemplated transactions. The Act intends that accrued capital gains on property, other than “taxable Canadian property”, are taxed

when that property leaves Canada. In our view, the transactions ruled on in 1991 may have circumvented that intent.

Therefore, we are concerned that in giving a favourable ruling on the transactions, Revenue Canada may have eroded the tax base by forfeiting a legitimate future claim to many millions of dollars in tax revenue. As well, we are concerned about the lack of documentation and analysis of key decisions made by the Department and the potential impact of those decisions. Finally, because the rulings were not made public until recently, other taxpayers may have been denied the benefit made available to those who received the rulings.

Revenue Canada's comments: *An advance income tax ruling is an assurance given by Revenue Canada that transactions that will be undertaken by taxpayers will have specified tax consequences. Taxpayers request advance rulings where there is uncertainty about the tax consequences of proposed transactions that frequently involve complex business arrangements with significant tax implications. Taxpayers require certainty in order to proceed with legitimate business transactions. In granting an advance ruling, Revenue Canada must make decisions with respect to the application of law that may be ambiguous.*

The granting of a ruling does not preclude an audit of the transactions proposed in the ruling at a later time. If an audit verifies that the facts and proposed transactions that were represented in the ruling are complete, accurate and are

carried out as proposed, Revenue Canada would abide by the ruling.

In interpreting the law that applies to the transactions to be undertaken, Revenue Canada determines the intent of the law by considering not only the words of the particular provision, but also the context in which the particular provision is found.

The crux of the rulings is the nature of the shares of the public company owned by the trusts. If they are taxable Canadian property to the Canadian resident trusts, they can be distributed by the trusts to the non-resident beneficiary without being subject to capital gains tax at that time. These public company shares were acquired by the trusts in exchange for shares of a private company owned by the trusts. A specific provision of the Income Tax Act characterizes public company shares as taxable Canadian property when they are exchanged for private company shares. Whether this provision applies to the transactions proposed in the ruling depends on whether a resident of Canada can own taxable Canadian property.

As noted by the Auditor General, this issue is complex and involved ambiguous provisions of the law. As is customary in resolving issues of this nature, Revenue Canada analyzed the relevant provisions of the Income Tax Act and their context and consulted the Department of Finance to ensure that its interpretation was consistent with the intent of the law. On the basis of its analysis and advice from the Department of Finance, Revenue Canada concluded that the public company shares were taxable Canadian property to the Canadian resident trust.

This interpretation has been published in the form of an advance income tax ruling and a general technical interpretation, which have been released to the public.

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L'impôt sur le revenu et leur contexte et a consulté le ministre des Finances afin de s'assurer que son interprétation était conforme à l'esprit de la législation. À la suite de son analyse et de l'opinion reçue du ministre des Finances, Revenu Canada a conclu que les actions de la société publique étaient des biens

Cette interprétation a été publiée sous forme de décision anticipée en matière d'impôt sur le revenu ainsi que sous forme d'interprétation technique; les deux documents sont disponibles au public.

canadiens imposables de la fiducie résidant au Canada.

Canada de vérifier ultérieurement les transactions projetées, qui faisaient l'objet de la demande. Si la vérification confirme que les faits et les transactions proposées, décrits dans la demande de décision anticipée, sont complets et exacts et que les transactions ont été complétées tel qu'il était proposé de le faire, Revenu Canada respectera la décision.

En interprétant la législation qui s'applique aux transactions envisagées, Revenu Canada détermine l'esprit de la loi en considérant non seulement le libellé utilisé dans une disposition particulière, mais aussi le contexte dans lequel se trouve la disposition donnée.

Le point déterminant des décisions rendues concerne la nature des actions de la société publique détenues par les fiduciaires. Si ces actions sont des biens canadiens imposables pour les fiduciaires résidant au Canada, elles peuvent être distribuées par les fiduciaires à un bénéficiaire non résident sans être assujetties à l'impôt sur les gains en capital à ce moment. Ces actions de la société publique ont été acquises par les fiduciaires en échange d'actions d'une

société privée détenues par les fiduciaires. Une disposition particulière de la Loi de l'impôt sur le revenu précise que des actions d'une société publique sont des biens canadiens imposables si elles ont été

obtenues en échange d'actions d'une société privée. Afin de déterminer si cette disposition s'applique aux transactions proposées dans la décision, il faut d'abord déterminer si un résident du Canada peut détenir des biens canadiens imposables.

Comme l'indique le vérificateur général, cette question est complexe et repose sur des dispositions de la Loi qui sont ambiguës. Comme c'est son habitude lorsqu'il doit résoudre ce genre de questions, Revenu Canada a analysé les dispositions pertinentes de la Loi de

du législateur que révèle la Loi, lorsque des biens autres que des « biens canadiens imposables » quittent le Canada, les gains en capital accumulés relativement à ces biens doivent être imposés. À notre avis, les opérations visées par la décision de 1991 peuvent avoir frustré cette intention. Nous craignons donc que, en rendant une décision favorable à ces opérations, Revenu Canada n'ait porté atteinte à l'assiette fiscale, c'est-à-dire n'ait renoncé au droit de recouvrer à l'avenir plusieurs millions de dollars en impôts. Nous nous inquiétons également du manque de documentation et d'analyse sur l'adoption de positions importantes par le Ministère ainsi que sur les conséquences éventuelles de cette adoption. Enfin, la non-publication, jusqu'à récemment, des décisions visées peut avoir privé d'autres contribuables de l'avantage donné à ceux qui ont reçu les décisions.

Commentaires de Revenu Canada : Une décision anticipée en matière d'impôt sur le revenu est une déclaration écrite, à un contribuable, dans laquelle le Ministère précise l'interprétation qu'il fera de certaines dispositions de la Loi de l'impôt sur le revenu à l'égard d'une ou de plusieurs opérations précises que le contribuable envisage. Les contribuables demandent des décisions anticipées lorsqu'il y a des incertitudes au sujet des conséquences fiscales découlant de transactions projetées qui impliquent, fréquemment, des ententes commerciales complexes avec des répercussions fiscales importantes. Les contribuables ont besoin de certitude avant d'effectuer des transactions commerciales légitimes. Afin de rendre une décision anticipée, Revenu Canada doit trancher relativement à l'application de la Loi, laquelle est parfois ambiguë. Même si une décision anticipée a été rendue, cela n'empêche pas Revenu

canadiens imposables », il reconnaissait
forçément le fait lorsqu'il a rendu la
décision.

1.59 De plus, Revenu Canada savait

que l'engagement protégeait bien peu les
recettes fiscales, puisqu'il connaissait la
jurisprudence pertinente, selon laquelle les
documents du genre ne sont pas

exécutoires. Dans le même sens, la note
de service du Sous-ministre mentionnait
qu'un engagement ne serait pas exécutoire
si, par la suite, le contribuable changeait
sa position et invoquait l'exonération

prévue par la convention fiscale entre le
Canada et les États-Unis. Comme
l'attestent les documents, le Ministère a
jugé que le contribuable ne manquerait
pas à son engagement, car y manquer le
mettrait en mauvaise posture pour ses
relations futures avec l'administration
fédérale. En outre, il nous semble que
l'engagement n'a de valeur que si la

fiducie croit que Revenu Canada pourra
persuader un tribunal que les actions de la
société publique n'étaient pas des « biens
canadiens imposables ». Ni la
renonciation ni l'engagement n'étaient
appuyés d'une sûreté.

**D'autres contribuables peuvent avoir
été privées de l'avantage donné à ceux
qui ont reçu les décisions**

1.60 Le cabinet d'avocats qui a
demandé la décision anticipée en matière
d'impôt rendue en 1991 avait une copie de
la décision anticipée en matière d'impôt
rendue en 1985 à l'intention d'un cabinet
de comptables. Cela lui donnait une
longueur d'avance sur quiconque ne
connaissait pas la décision rendue en
1985. Le cabinet de comptables qui a reçu
en 1985 l'opinion en matière d'impôt
donnée en sens opposé par Revenu
Canada n'a peut-être pas eu connaissance
de la décision anticipée rendue la même
année et, à l'heure qu'il est, il ne connaît

Conclusion

1.63 La présente observation de

vérification soulève de sérieuses
inquiétudes concernant l'application de la
Loi de l'impôt sur le revenu. Les décisions
anticipées jouent un rôle important dans
l'administration de l'impôt. Elles donnent
aux contribuables une certitude en
garantissant les conséquences en matière
d'impôt sur le revenu qui découleront des
opérations envisagées. Selon l'intention

peut-être pas non plus la décision rendue
en 1991. Par contre, il convient de noter
que l'opinion donnée en 1985 est du
domaine public.

1.61 En 1993, nous avons

recommandé que Revenu Canada publie,
en version dépersonnalisée, les décisions
anticipées rendues en matière d'impôt. Le
Ministère a bien publié certaines
décisions, mais il a préféré ne pas publier
celles dont nous traitons ici au moment où
elles ont été rendues. La décision rendue
en 1991 vient d'être publiée, en mars
1996, en version dépersonnalisée.

1.62 En novembre 1995, au cours de

notre travail visant à produire la présente
observation, Revenu Canada a annoncé
son intention de publier en version
dépersonnalisée toutes les décisions
anticipées. Nous appuyons cette intention.
Les décisions anticipées en matière
d'impôt jouent un rôle important dans
l'administration fiscale. Les faire
connaître au public devrait entraîner une
application de la loi plus uniforme et plus
cohérente d'un contribuable à l'autre tout
en accroissant la transparence du régime
fiscal. Non seulement la transparence
facilite la tâche des contribuables et de
leurs conseillers, mais elle aide les
parlementaires et le public à comprendre
comment le droit fiscal s'applique. De
plus, une transparence accrue devrait se
traduire par une responsabilisation accrue.

que le contribuable n'effectue d'autres opérations non mentionnées dans la demande, spécialement des opérations visant à se soustraire à l'impôt. Afin de dissiper cette crainte, le contribuable a fourni un engagement et une renonciation, remplissant ainsi une condition nécessaire pour recevoir la décision anticipée en matière d'impôt rendue en 1991.

1.57 Selon les déclarations que nous a faites Revenu Canada, l'engagement et la renonciation confirmaient que le contribuable n'envisageait pas d'effectuer les opérations en vue de se soustraire à l'impôt. Le Ministère a ajouté que cela dissipait toute inquiétude concernant des opérations futures auxquelles il pourrait envisager d'appliquer la règle générale anti-évitement et que cela le protégeait dans une certaine mesure contre les cas où les faits prendraient à l'avenir une autre tournure.

1.58 Nous reconnaissons que

l'engagement et la renonciation ont donné au Ministère une certaine assurance à l'appui de la décision favorable. Toutefois, la renonciation n'avait qu'une portée restreinte, puisqu'elle permettait à Revenu Canada d'établir une nouvelle cotisation, mais uniquement en soutenant que les actions de la société publique n'étaient pas des « biens canadiens impossibles ». Or, en rendant la décision, le Ministère a approuvé l'affirmation selon laquelle ces actions sont effectivement des « biens canadiens impossibles » et peuvent donc être transférées aux États-Unis en franchise d'impôt. Pour faire valoir par la suite la renonciation, Revenu Canada devra prouver le bien-fondé d'une nouvelle cotisation en soutenant que les actions n'étaient pas des « biens canadiens impossibles ». Puisque le Ministère était prêt à soutenir au besoin, dans l'avenir, que les actions n'étaient pas des « biens

pouvoir s'acquitter de son obligation de rendre publiquement des comptes sur les décisions de ce genre.

La décision anticipée a été appliquée à une opération déjà effectuée

1.54 La décision rendue en 1991

reposait sur la position que les actions de la société publique constituaient des « biens canadiens impossibles » parce qu'elles avaient été acquises en

comparatie d'actions d'une société privée. C'était là l'une des principales questions à résoudre avant de rendre la

décision. Mais l'échange d'actions avait déjà eu lieu. Bien que la décision, si l'on considère uniquement son libellé

technique, n'ait pas porté expressément sur le caractère de « biens canadiens impossibles » des actions, la présence de

ce caractère constituait bien l'essentiel de la décision. Cela est confirmé à la fois par les comptes rendus qui existent des

réunions et des délibérations des agents des décisions, par l'engagement, par la position qu'a adoptée le comité d'examen

des décisions et par la note de service à l'intention du Sous-ministre.

1.55 Dans la circulaire

d'information 70-6R2, Revenu Canada précise que « les décisions anticipées seront rendues seulement à l'égard

d'opérations projetées ». Normalement, le Ministère s'occupe des opérations déjà

effectuées en les soumettant plutôt à une vérification. Les fonctionnaires chargés

des vérifications n'ont pas examiné l'échange d'actions pour déterminer si les

actions de la société publique étaient des « biens canadiens impossibles », mais les fonctionnaires chargés des décisions ont

conclu qu'elles en étaient.

L'engagement et la renonciation ont une valeur restreinte

1.56 Comme le montrent les dossiers de Revenu Canada, le Ministère craignait

1.49 Toutefois, dans une série de réunions tenues le 23 décembre 1991, des hauts fonctionnaires de Revenu Canada ont autorisé une décision favorable. Le Ministère nous a informés que ses dossiers ne contiennent aucun compte rendu de ces réunions ni aucune autre précision s'y rapportant. Pour sa part, le ministère des Finances nous a signalé que ses dossiers ne contiennent pas non plus de compte rendu de la réunion à laquelle certains de ses fonctionnaires ont participé le 23 décembre, ni d'autres précisions s'y rapportant. Nous avons remarqué que le haut fonctionnaire de Revenu Canada chargé des décisions n'était pas présent aux réunions. Une analyse a été rédigée après coup pour justifier la décision.

1.50 L'analyse servant à appuyer l'interprétation que Revenu Canada a fini par donner de la loi était elle-même fondée sur une lettre datée du 23 décembre 1991 provenant du ministère des Finances. Celui-ci nous a déclaré n'avoir réussi à trouver aucune documentation qui appuie les conclusions énoncées dans sa lettre sur les conséquences fiscales éventuelles de ces conclusions. Selon la conclusion de cette lettre, le législateur prévoyait que résidents et non-résidents puissent être propriétaires de « biens canadiens impossibles ». Comme nous l'avons mentionné, Revenu Canada s'est appuyé sur l'avis du ministère des Finances pour conclure que les actions de la société publique étaient des « biens canadiens impossibles ».

1.51 Vu la complexité des passages de la *Loi de l'impôt sur le revenu* qui mentionnent les « biens canadiens impossibles », il est difficile de dire si les actions considérées appartenaient à cette catégorie de biens pour l'application de la Loi. De plus, comme nous l'avons signalé, si Revenu Canada se prévalait de la

renonciation, il devait établir une nouvelle cotisation en s'appuyant sur la position que les actions n'étaient pas des « biens canadiens impossibles ». La question ne peut être tranchée que par les tribunaux, si une cause pertinente est un jour portée devant eux.

1.52 En acceptant la position du contribuable selon laquelle les actions étaient des « biens canadiens impossibles », Revenu Canada a peut-être garanti, pour l'avenir, l'élimination complète de l'impôt canadien sur les gains en capital relatifs à des biens d'une valeur énorme. Il est peu probable que, si la décision demandée n'avait pas été rendue, les opérations envisagées auraient été effectuées et auraient immédiatement entraîné un impôt à payer. Par contre, nous craignons que Revenu Canada n'ait porté atteinte à l'assiette fiscale en renonçant à un droit de recouvrer à l'avenir des centaines de millions de dollars en impôts.

1.53 En outre, nous nous attendions à trouver, dans les dossiers de Revenu Canada, un compte rendu de la réunion tenue avec les fonctionnaires du ministère des Finances et une certaine ventilation des raisons pour lesquelles les fonctionnaires de Revenu Canada ont accepté l'avis reçu de l'extérieur. Notre attente était amplement justifiée dans cette situation, étant donné l'importance des sommes en jeu et le fait que l'avis reçu du ministère des Finances a amené Revenu Canada à changer de position. Nous aurions également trouvé normal que les dossiers de Revenu Canada contiennent une énumération quelconque des incidences que l'acceptation de cet avis risquait d'avoir sur l'application d'autres passages de la *Loi de l'impôt sur le revenu*. Nous croyons que, en l'absence de tout document énumérant les aspects pertinents, le Ministère risque de ne pas

Pièce 1.5c

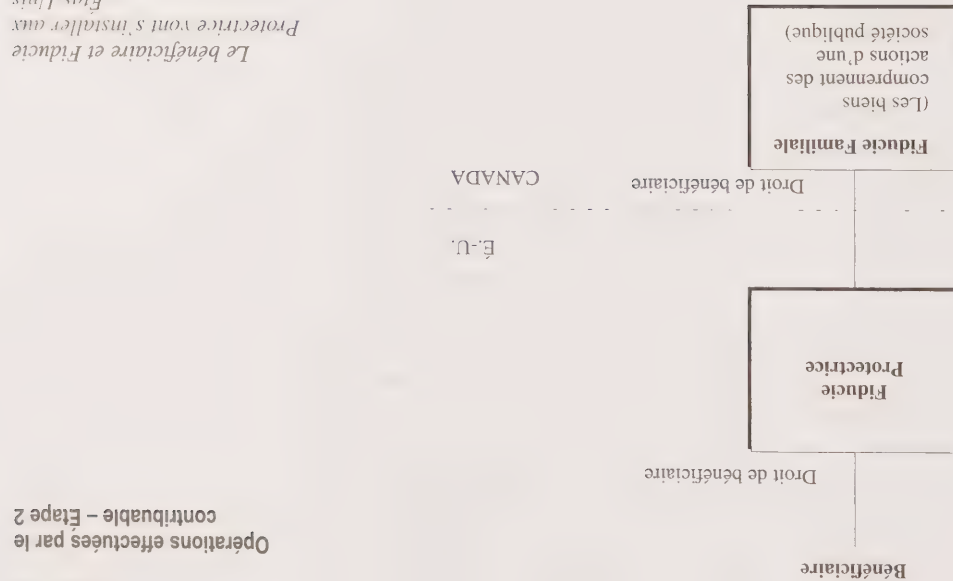
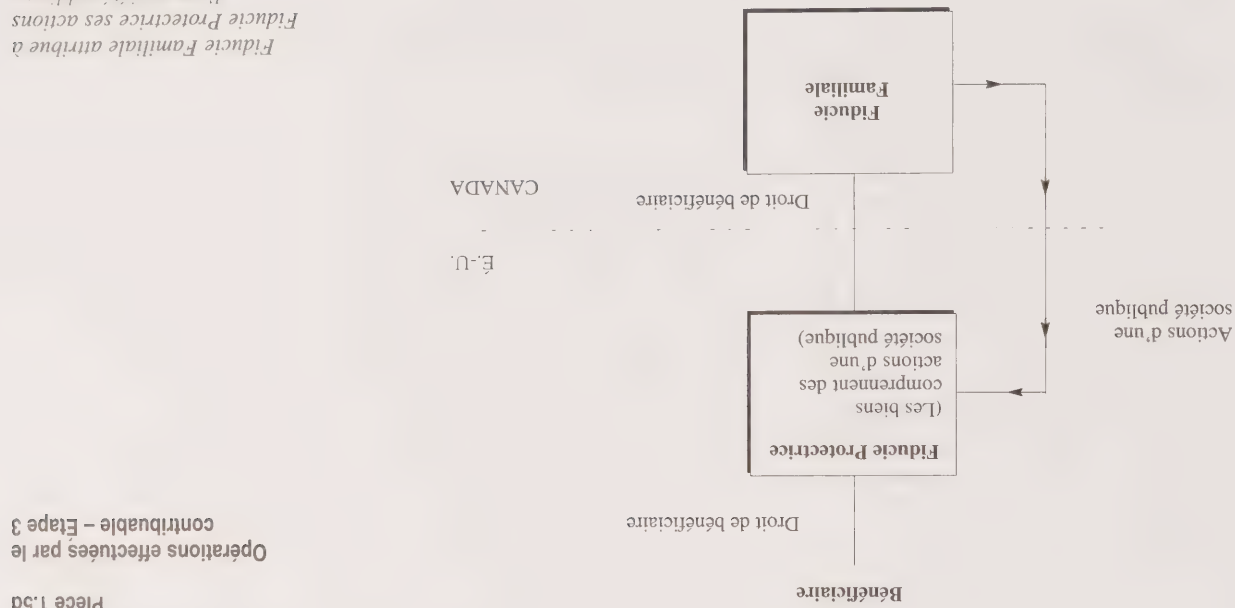
Opérations effectuées par le contribuable – Étape 2

Le bénéficiaire et Fiducie Protectrice vont s'installer aux Étas-Unis

Pièce 1.5d

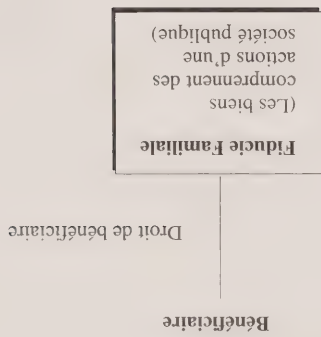
Opérations effectuées par le contribuable – Étape 3

Fiducie Familiale attribue à Fiducie Protectrice ses actions d'une société publique.



Pièce 1.5a

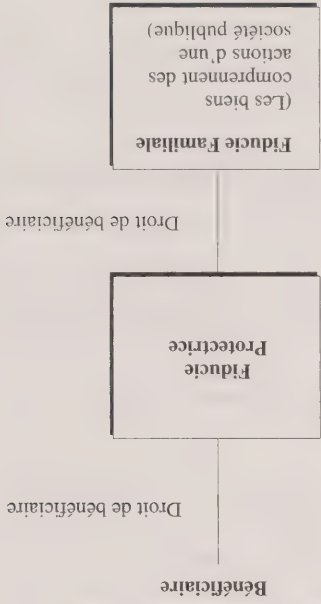
Opérations effectuées par le
contribuable — Structure initiale



Pièce 1.5b

Opérations effectuées par le
contribuable — Étape 1

Étape franchie avant la demande
de décision anticipée en matière
d'impôt sur le revenu présentée en
1991.



Le droit de bénéficiaire dans
Fiducie Familiale est transféré à
Fiducie Protectrice en franchise
d'impôt, en contrepartie d'un droit
de bénéficiaire dans Fiducie
Protectrice.

23 décembre	Des hauts fonctionnaires se réunissent deux fois. (Aucun compte rendu des réunions ne figure au dossier. Nous avons demandé à Revenu Canada de nous donner des précisions sur les réunions. Revenu Canada a répondu qu'il avait examiné ses dossiers et qu'il n'y trouvait ni renseignements supplémentaires ni précisions concernant les réunions.)
23 décembre	Des hauts fonctionnaires se réunissent avec des fonctionnaires du ministère des Finances. (Aucun compte rendu de la réunion ne figure au dossier. Nous avons demandé à Revenu Canada et au ministère des Finances de nous donner des précisions sur la réunion. Les deux ministères ont répondu qu'ils avaient examiné leurs dossiers et qu'ils n'y trouvaient ni renseignements supplémentaires ni précisions concernant la réunion.)
23 décembre	Des hauts fonctionnaires se réunissent encore une fois. (Aucun compte rendu de la réunion ne figure au dossier. Nous avons demandé à Revenu Canada de nous donner des précisions sur la réunion. Revenu Canada a répondu qu'il avait examiné ses dossiers et qu'il n'y trouvait ni renseignements supplémentaires ni précisions concernant la réunion.)
23 décembre	L'agent des décisions est informé de la décision prise d'accepter un engagement et une renonciation et de rendre une décision favorable. Cela, bien que Revenu Canada connaisse, par des causes judiciaires, l'existence d'une certaine incertitude quant à la validité et au caractère exécutoire d'un tel engagement. Revenu Canada juge que le contribuable ne manquera pas à son engagement, car y manquer le mettrait en mauvaise posture pour ses relations futures avec l'administration fédérale.
23 décembre	Revenu Canada reçoit du ministère des Finances une lettre exposant l'intention qui a poussé le législateur à adopter certaines dispositions d'une importance cruciale pour l'affaire. Ces dispositions concernent les « biens canadiens imposables ». Dans la lettre, le ministère des Finances conclut que, selon l'intention du législateur, les résidents peuvent être propriétaires de « biens canadiens imposables ». La lettre sert à donner à Revenu Canada une certaine assurance du bien-fondé du choix qu'il a fait de rendre une décision favorable.
23 décembre	Les représentants du contribuable sont informés que le Ministère consent à accepter un engagement et une renonciation et à rendre une décision favorable.
24 décembre	Revenu Canada rend la décision demandée et il reçoit la renonciation et l'engagement.
1992	
13 janvier	On reçoit l'avis juridique.

Chronologie des principales étapes avant que la décision anticipée en matière d'impôt sur le revenu de 1991 ne soit rendue

1991	8 mars	Réception de la demande de décision. Les opérations envisagées visent à éviter la disposition, réputée avoir lieu à la juste valeur marchande après 21 ans, ainsi que la disposition, réputée avoir lieu à la mort d'un bénéficiaire. Cette demande est retirée puis, le 7 novembre 1991, remplacée par une demande modifiée.
	7 novembre	Réception de la nouvelle demande de décision
	25 novembre	Le représentant du contribuable fournit à Revenu Canada une copie de la décision anticipée en matière d'impôt sur le revenu, rendue en 1985, qui figure à la pièce 1.1.
	3 décembre	Revenu Canada signale au ministre des Finances les opérations envisagées et il lui mentionne son intention de refuser la décision favorable demandée et, s'il le faut, d'attirer l'attention du Comité de la règle générale anti-évitement sur ces opérations en recommandant de leur appliquer le paragraphe 245(2).
	6 décembre	Des fonctionnaires de Revenu Canada et du ministre des Finances se réunissent pour discuter des questions soulevées par la lettre du 3 décembre. Il n'en découle aucune recommandation sur la ligne de conduite à suivre.
	12 décembre	Le comité d'examen des décisions de Revenu Canada décide qu'il ne faut pas rendre une décision favorable.
	12 décembre	Revenu Canada avertit le ministre des Finances qu'il ne rendra pas de décision favorable et il lui demande de le laisser interpréter lui-même la Loi.
	16 décembre	Les représentants du contribuable sont informés qu'aucune décision favorable ne sera rendue. Ils offrent de fournir une renonciation et un engagement à ne pas disposer des actions durant cinq ans.
	18 décembre	Revenu Canada fait savoir aux représentants du contribuable qu'il ne peut accepter leur offre du 16 décembre 1991. Les représentants offrent de ne pas invoquer la convention fiscale entre le Canada et les États-Unis, qui permettrait au contribuable de se soustraire entièrement à l'impôt canadien.
	18 décembre	Etablissement d'une note de service dans laquelle le sous-ministre adjoint de Revenu Canada informe le Sous-ministre que le Ministère ne peut pas rendre une décision favorable dans ce dossier. (Nous avons demandé à celui-ci d'être informé de la première fois qu'il a été envoyé au Sous-ministre et quand nous a répondu que rien dans le dossier n'indiquait à quelle date le Sous-ministre a été informé de la demande pour la première fois.)
	19 décembre	Une ébauche d'avis juridique est reçue.
	20 décembre	Des hauts fonctionnaires décident que la note de service rédigée pour le Sous-ministre doit être révisée.
	23 décembre	La note de service du Sous-ministre est révisée et elle indique que la proposition du contribuable n'est pas acceptable, le Ministère étant d'avis qu'un impôt deviendrait payable du fait du transfert d'actions de sociétés publiques à l'extérieur du Canada. Le document énonce d'autres solutions que la proposition du contribuable.

appelés « biens canadiens imposables ». Généralement, les actions de sociétés publiques ne sont pas des « biens canadiens imposables ».

1.45 Quelques années avant la

décision de 1991, Fiducie Familiale avait reçu les actions d'une société publique en contrepartie d'actions d'une société privée. Au moment de l'échange, les deux fiducies résidaient au Canada. Or, le passage de la *Loi de l'impôt sur le revenu* (l'alinéa 85(1)) en vertu duquel les actions de sociétés publiques constituent des « biens canadiens imposables » lorsqu'elles sont reçues en contrepartie d'actions de sociétés privées s'applique manifestement lorsque c'est un non-résident qui reçoit ainsi les actions. Revenu Canada devait donc déterminer si ce passage s'appliquait également lorsque les actions de sociétés publiques sont reçues par un résident. Au bout du compte, s'appuyant sur un avis reçu du ministre des Finances, Revenu Canada adopte pour position que les résidents peuvent détenir des « biens canadiens imposables ».

115(1) et l'article 128.1 font partie de ces dispositions. En outre, la disposition de la Loi en vertu de laquelle les actions de sociétés publiques constituent des « biens canadiens imposables » lorsqu'elles sont reçues en contrepartie d'actions de sociétés privées — l'alinéa 85(1) — vise manifestement à empêcher les non-résidents de se soustraire à l'impôt canadien.

1.47

Nous avons remarqué que l'opinion fournie en 1985 (pièce 1.2) présente de façon persuasive la position suivante : le plan général de la Loi montre que le législateur envisage l'appartenance de « biens canadiens imposables » uniquement à des non-résidents. À notre avis, les opérations visées par la décision de 1991 peuvent avoir frustré cette intention du législateur en admettant dans la catégorie des « biens canadiens imposables » les actions d'une société publique détenues par un résident du Canada et en prévenant ainsi l'imposition de ces actions à leur sortie du pays. De plus, nous croyons que ces opérations frustrent l'intention générale du législateur, qui est d'imposer les gains en capital accumulés relativement aux biens qui quittent le Canada, à moins qu'il ne s'agisse de « biens canadiens imposables ».

En rendant la décision, Revenu Canada a peut-être renoncé au droit de recouvrer à l'avenir d'importantes sommes d'impôt

1.48 Les documents contenus dans les dossiers de Revenu Canada révèlent que, au cours des deux mois durant lesquels la demande de décision a été à l'étude, des fonctionnaires ont à plusieurs reprises conclu que le Ministère ne devait pas rendre de décision favorable à l'égard du cas.

1.46 L'avis reçu du ministre des Finances reposait sur le seul alinéa 97(2)c) de la *Loi de l'impôt sur le revenu*. Cet alinéa, qui porte sur les sociétés de personnes canadiennes, correspond à d'autres dispositions de roulement contenues dans la Loi, mais sa raison d'être semble peu claire. Toutefois, l'article 102 de la Loi, l'alinéa donne lieu de croire qu'un résident du Canada peut être propriétaire de « biens canadiens imposables ». En même temps, plusieurs autres dispositions de la Loi donnent de bonnes raisons de penser que, dans l'ensemble de la Loi, le législateur envisage l'appartenance de « biens canadiens imposables » uniquement à des non-résidents. Les paragraphes 107(5) et

capital accumulés à la date de son départ du Canada.

1.42 Pour sa part, Fiducie Familiale a

fourni une renonciation valide pour dix ans, qui permet à Revenu Canada d'établir contre elle une nouvelle

cotisation. Les dossiers de Revenu Canada et la renonciation indiquent que, si le

Ministère se prévalait de la renonciation, il devrait changer complètement sa

position et établir une nouvelle cotisation en se fondant sur le fait que les actions de la société publique n'étaient pas des

« biens canadiens imposables » et que les gains en capital accumulés auraient donc

du être assujettis à l'impôt au Canada lorsque ces actions ont quitté le pays

en 1991.

Questions soulevées

Les opérations peuvent avoir frustre

1.44 Comme nous l'avons mentionné,

toute fiducie qui réside au Canada et qui transfère des biens à l'étranger est, en

règle générale, réputée avoir réalisé les gains en capital accumulés depuis 1971

relativement à ces biens. Font exception à cette règle certains genres de biens,

1.43 La décision anticipée en matière

d'impôt rendue en 1991 figure à la pièce 1.3. La pièce 1.4 constitue une

chronologie des principales étapes franchies pour rendre cette décision. Quant à la pièce 1.5, elle présente les

opérations effectuées par le contribuable.

Pièce 1.3

Libellé technique de la décision anticipée en matière d'impôt sur le revenu de 1991
Dans la décision, Revenu Canada ne mentionne pas que les actions de la société publique sont des « biens canadiens imposables », mais il n'aurait pas rendu cette décision s'il n'avait pas approuvé cet énoncé. Comme dans la décision de 1985, l'hypothèse sous-jacente est que les actions de la société publique sont des « biens canadiens imposables » parce qu'elles ont été reçues en contrepartie d'actions d'une société privée.

Pourvu que les conditions suivantes soient remplies :

- Fiducie Familiale fournit au bureau de district de Revenu Canada, pour l'application du paragraphe 107(5) à l'année d'imposition de Fiducie Familiale au cours de laquelle celle-ci attribue les actions de Publique Ltee à Fiducie Protectrice, une renonciation valide conformément au sous-alinéa 152(4)(ii) [une copie de cette renonciation sera également fournie à la Direction des décisions] visant les dix années suivant l'année d'imposition mentionnée, sans que cette renonciation ne soit annulée au cours de ces dix années;
- Fiducie Protectrice s'engage, pour une période de 120 mois commençant à la date où elle devient un résident des États-Unis, à n'invoquer aucune exonération prévue par la Convention fiscale de 1980 entre le Canada et les États-Unis (la « Convention ») relativement à des gains en capital accumulés sur les actions de Publique Ltee attribuées, c.-à-d. à ne pas invoquer le paragraphe 4 de l'article XIII de la Convention, et que par conséquent elle ne présentera aucune demande en vertu des alinéas 110(1)(f) et 115(1)(d) de la Loi de l'impôt sur le revenu relativement à quelque disposition que ce soit (y compris toute disposition réputée avoir eu lieu) des actions de Publique Ltee attribuées;

nous rendons les décisions suivantes :

- nous confirmons que Fiducie Familiale sera réputée avoir disposé des actions de Publique Ltee attribuées, pour une contrepartie égale à une somme déterminée conformément à l'alinéa 107(2)a) et que Fiducie Protectrice sera réputée avoir acquis les mêmes actions à un coût déterminé conformément à l'alinéa 107(2)b);
- le paragraphe 107(5) ne s'appliquera pas à l'attribution des actions de Publique Ltee par Fiducie Familiale à Fiducie Protectrice;
- Fiducie Protectrice ne sera pas, par application du paragraphe 48(1), réputée avoir disposé de sa participation dans Fiducie Familiale lorsqu'elle cessera de résider au

Canada.

certaines actions d'une société publique. Dans ce cas, toutefois, la fiducie qui

quittait le Canada existait depuis moins de dix ans. Cela signifie que, en vertu d'une

clause de la convention fiscale entre le Canada et les États-Unis, le Canada n'aurait eu virtuellement aucun droit d'imposer les gains en capital accumulés relatifs aux actions transférées aux États-Unis, lorsque Fiducie Protectrice aurait réalisé ces gains.

1.39 En rendant une décision

favorable, Revenu Canada a accepté l'affirmation du contribuable selon laquelle les actions d'une société publique détenues par Fiducie Familiale (une fiducie canadienne) constituaient des « biens canadiens impossibles ». Cette affirmation s'appuyait sur une opération antérieure par laquelle la fiducie avait reçu les actions de la société publique en

1.41 La fiducie qui allait s'installer

aux États-Unis (Fiducie Protectrice) s'est engagée, si elle vendait les actions dans les 10 ans suivant la date à laquelle elle serait devenue résidente des États-Unis, à ne pas invoquer la clause de la convention fiscale entre le Canada et les États-Unis qui lui permettrait par ailleurs de se soustraire entièrement à l'impôt sur le revenu canadien relativement aux gains en

1.40

Avant même de rendre la

décision, Revenu Canada connaissait parfaitement le risque (évoqué au

paragraphe 1.38) inhérent à l'opération alors envisagée. Le Ministre a rendu la décision anticipée, à la condition que le contribuable fournisse un engagement et une renonciation (voir la pièce 1.3).

Vous demandez notre avis sur la signification de l'expression « bien canadien impossible » dans le cas où une fiducie résidente attribue à un bénéficiaire non résident des actions qu'elle a acquises par un échange auquel l'article 85.1 de la Loi s'appliquait. Vous donnez à entendre que, si les actions mentionnées représentent au moins 25 p. 100 des actions émises d'une catégorie du capital-actions d'une « corporation publique », elles constituent des biens canadiens impossibles de la fiducie en vertu du paragraphe 85.1(1) et du sous-alinéa 115(1)(b)(ix) de la Loi.

Nous ne sommes pas d'accord. Comme vous le signalez, le plan général de la Loi montre que le législateur envisage l'appartenance de biens canadiens impossibles à des non-résidents (p. ex. à l'alinéa 48(1a) de la Loi, où l'on trouve « un bien qui serait un bien canadien impossible si le contribuable n'avait, à aucun moment de l'année, résidé au Canada »). Le paragraphe 107(5) et le sous-alinéa 108(1)(d.1)(ii) de la Loi contiennent des libellés semblables. Cela étant, nous désapprouvons votre argument selon lequel le législateur, à l'alinéa 133(1)(c) de la Loi, envisage l'appartenance d'un bien canadien impossible à un résident du Canada. Le législateur y envisage manifestement deux genres de situations, mais le genre que vous mentionnez est le cas d'une corporation ne résidant pas au Canada (probablement une corporation constituée avant le 26 avril 1985).

Le paragraphe 107(5) de la Loi, tout comme le paragraphe 48(1) de la Loi, permet de différer la constatation du gain ou de la perte sur la disposition (réelle ou seulement réputée) des biens qui, lorsqu'on en dispose finalement, doivent normalement être comptabilisés aux fins de l'impôt canadien (sous réserve de toute exonération découlant de la convention fiscale pertinente). Dans le même ordre d'idées, nous sommes donc également d'avis que les actions mentionnées par vous ne seraient pas considérées comme des biens canadiens impossibles du bénéficiaire non résident simplement parce que la fiducie les a acquises de la façon décrite ci-dessus.

publiques détenues par une fiducie seraient considérées comme des « biens canadiens imposables » et que les gains en capital sur ces actions ne seraient donc pas réputés être réalisés lorsque la fiducie changerait de pays de résidence.

1.34 Revenu Canada a rendu la décision demandée, confirmant que les actions de la corporation publique détenues par la fiducie pouvaient quitter le Canada en franchise d'impôt parce qu'elles seraient considérées comme des « biens canadiens imposables ». La décision a été communiquée en janvier 1985; elle figure à la pièce 1.1.

1.35 Selon une opinion en matière d'impôt sur le revenu fournie en 1985, relativement à un cas semblable, les actions de corporations publiques sont assujetties à l'impôt lorsqu'elles

quittent le Canada. Une semaine après la communication de la décision anticipée de 1985, Revenu Canada a reçu, d'un autre cabinet de comptables, une demande d'opinion (contrairement aux « décisions », les « opinions » ne lient pas Revenu Canada) au sujet d'un cas dont les faits étaient comparables. En mai 1985, l'opinion a été fournie : elle disait en substance que les actions de corporations publiques ne pouvaient pas être considérées comme des « biens canadiens imposables » d'un résident du Canada. L'opinion et la décision ont toutes deux été fournies par la Division des décisions ne visant pas les corporations. L'opinion figure à la pièce 1.2.

1.36 Nous avons voulu examiner

l'analyse sur laquelle s'appuie l'opinion donnée. On nous a répondu que le dossier contient uniquement la demande d'opinion et l'opinion même. Il n'y a rien dans le dossier qui puisse montrer le bien-fondé du raisonnement suivi pour en arriver à cette opinion. Revenu Canada nous a signalé qu'il considère maintenant cette opinion comme inexacte sur le plan technique. À la fin de notre vérification, le cabinet de comptables à qui l'opinion a été donnée n'avait toujours pas été informé de cette inexactitude présumée.

1.37 En 1991, une nouvelle décision anticipée en matière d'impôt a été rendue pour confirmer que des actions de sociétés publiques pouvaient

traverser la frontière en franchise d'impôt. Revenu Canada a rendu cette décision à l'intention d'un cabinet d'avocats qui la demandait pour le compte d'une autre fiducie reliée aux parties ayant bénéficié de la décision anticipée en matière d'impôt rendue en 1985. Certains aspects précis étaient différents, mais les principales questions soulevées étaient celles que soulevait la situation visée par la décision de 1985.

1.38 La décision de 1991 se rapportait aux conséquences, en matière d'impôt sur le revenu, du fait qu'une fiducie cesse de résider au Canada et devienne résidente des États-Unis (cette fiducie est appelée « Fiducie Protectrice » dans la décision). Peu après être devenue résidente des États-Unis, cette fiducie devait recevoir, d'une fiducie résidant au Canada (appelée « Fiducie Familiale » dans la décision),

Notre décision est que la fiducie, lorsqu'elle cessera de résider au Canada, ne sera pas, par application du paragraphe 48(1) de la Loi, réputée avoir disposé de ses actions de corporations publiques qu'elle a acquises en contrepartie d'actions d'une corporation privée qui lui appartenaient. Cela, parce que ces actions constitueront des biens canadiens imposables visés par l'alinéa 85(1)i) et par le sous-alinéa 115(1)b)(iii) de la Loi.

Pièce 1.1
Libellé technique de la
décision anticipée en matière
d'impôt sur le revenu de 1985

Autrement dit, le droit du Canada sur ces biens est protégé, si bien que l'assiette fiscale canadienne demeure entière.

1.31 Toutefois, seuls les biens d'un

certain genre, qui appartiennent à une fiduciaire, font partie des « biens canadiens

imposables ». De façon générale, la nature des biens de cette catégorie est telle que le Canada sera en mesure de faire valoir son

droit à tout impôt relié à ces biens. Les biens immobiliers situés au Canada en

sont un excellent exemple. Les actions de sociétés privées sont également classées

parmi les biens canadiens imposables. Par contre, les actions de sociétés publiques

ne sont généralement pas classées parmi les « biens canadiens imposables ». Les

particuliers et les sociétés qui résident au Canada et qui quittent notre pays peuvent,

en vertu de la loi, choisir que des actions de sociétés publiques deviennent des

« biens canadiens imposables » à la condition de fournir au ministre du

Revenu national une sûreté satisfaisante. Il est expressément interdit aux fiduciaires de

faire un tel choix.

1.32 Nous avons examiné deux

importantes décisions anticipées en matière d'impôt sur le revenu, qui ont été

rendues en faveur des contribuables, relativement à des transferts aux

États-Unis de biens valant au moins deux milliards de dollars détenus dans des

fiducies familiales au Canada.

1.33 Selon une décision anticipée en

matière d'impôt rendue en 1985, des actions de corporations publiques (les

sociétés étaient alors appelées « corporations ») pouvaient quitter le

Canada en franchise d'impôt. Un cabinet de comptables avait demandé

cette décision en 1984 pour le compte d'un client. L'essentiel de la décision

voulue consistait en une déclaration, de la part de Revenu Canada, selon laquelle

certaines actions de corporations

une forme particulière de revenus tirés de biens.

1.29 À certaines exceptions près,

l'intention du législateur, telle qu'elle se manifeste aujourd'hui dans la Loi de

l'impôt sur le revenu, est que les gains en capital accumulés après 1971 sous la

forme d'une augmentation de valeur des biens détenus par les résidents du Canada

sont assujettis à l'impôt. Du vivant d'un résident du Canada, le gain est imposé

lorsque le résident « dispose » du bien (c.-à-d. l'aliène) et qu'il réalise ainsi le

gain accumulé. Lorsqu'un résident du Canada décède, les gains accumulés dans

les biens qu'il détient au moment de son décès sont généralement réputés avoir

été réalisés et ils sont imposés en conséquence. De plus, les gains accumulés

dans certains biens détenus sont réputés avoir été réalisés et ils sont donc imposés

lorsqu'une personne quitte le Canada pour établir sa résidence à l'étranger.

Quiconque envisage notre régime fiscal sous l'angle simplifié de ces grandes

règles reconnaît aisément qu'il devrait être impossible de se soustraire à l'impôt sur

les gains en capital.

1.30 Dans le cas des fiduciaires qui

résident au Canada et qui transfèrent des biens à l'étranger, la règle générale est que

les gains en capital accumulés depuis 1971 relativement aux biens ainsi

transférés sont réputés avoir été réalisés et sont imposés en conséquence. Font

exception à cette règle une catégorie de biens appelés « biens canadiens

imposables ». Cette exception s'applique par le fait que le Canada conserve son

droit d'imposer les gains en capital sur ces biens (sous réserve des exonérations qui

peuvent s'appliquer en vertu d'une convention fiscale conclue avec un pays

étranger) lorsque ces gains seront effectivement réalisés, même si les biens

sont alors détenus par un non-résident.

Revenu Canada

Vérificateur général adjoint : Shahid Minto
Vérificateur responsable : Barry Elkin

Sérieux motifs d'inquiétude quant à la façon dont la Loi de l'impôt sur le revenu a été appliquée au transfert à l'étranger d'au moins deux milliards de dollars d'actifs détenus dans des fiducies familiales au Canada

Lorsque des contribuables envisagent des opérations dont le traitement aux fins de l'impôt est incertain, ils peuvent demander à Revenu Canada des décisions anticipées. Celles-ci garantissent les conséquences en matière d'impôt sur le revenu qui découleront des opérations envisagées. Nous avons examiné deux décisions anticipées concernant le transfert aux États-Unis de biens valant au moins deux milliards de dollars qui étaient détenus dans des fiducies familiales au Canada. À notre avis, les opérations visées par ces décisions ont frustré l'intention du législateur en ce qui concerne l'imposition des gains en capital. Nous craignons donc que Revenu Canada, en rendant les décisions, n'ait porté atteinte à l'assiette fiscale en renonçant au droit de recouvrer à l'avenir plusieurs millions de dollars en impôts. Nous nous inquiétons également du manque de documentation et d'analyse sur l'adoption de positions importantes par le Ministère, ainsi que sur les conséquences éventuelles de ces positions. En outre, la non-publication, jusqu'à tout récemment, des décisions visées peut avoir privé d'autres contribuables de l'avantage donné à ceux qui ont reçu les décisions.

Contexte

1.26 Revenu Canada rend des

décisions anticipées en matière d'impôt sur le revenu afin de faciliter l'observation volontaire de la Loi de l'impôt sur le revenu ainsi que de promouvoir l'uniformité dans l'application de la loi et dans l'autocotisation de la part des contribuables. Ces décisions anticipées donnent au contribuable une certitude quant aux conséquences fiscales d'opérations précises qu'il envisage. Elles sont généralement demandées dans des situations où le traitement fiscal qui s'applique semble incertain.

1.27 Le traitement des demandes de décision anticipée nécessite une analyse experte de la politique et du droit relatifs à l'impôt. Afin de déterminer la position

L'imposition des gains en capital

1.28

Le régime canadien d'impôt sur le revenu est compliqué, mais il repose sur certains principes fondamentaux. Un de ces principes est que l'impôt s'applique en fonction du pays de résidence. Un autre est que l'impôt frappe les gains en capital.

1.28 Le régime canadien d'impôt sur le revenu est compliqué, mais il repose sur certains principes fondamentaux. Un de ces principes est que l'impôt s'applique en fonction du pays de résidence. Un autre est que l'impôt frappe les gains en capital.

qu'il adoptera, Revenu Canada demande parfois au ministère des Finances des avis sur les principes de politique fiscale qui sous-tendent différents points de droit concernant l'impôt. Il consulte également le ministère de la Justice pour connaître l'interprétation juridique que celui-ci donne des points de droit visés. Bien que Revenu Canada demande des opinions de l'extérieur, il lui revient exclusivement d'appliquer la loi.

plan d'activités établit la nécessité d'élaborer un plan directeur à long terme pour les installations. Ce plan devrait être terminé en décembre 1996.

1.22 L'Agence nous a informés qu'à une réunion du 26 mars 1996, le conseil d'administration de l'Association a approuvé des lignes directrices sur les conflits d'intérêts dans la dépense des fonds fournis par l'Agence.

1.23 En janvier 1996, l'Agence a repris le financement de cette initiative, après la mise en place de contrôles supplémentaires sur le traitement des demandes et la remise d'avances. Elle a depuis déboursé 150 000 \$ en financement supplémentaire.

Conclusion

1.24 L'Agence n'a pas formulé d'attentes claires quant à l'utilisation du financement par l'Association. De plus, elle n'a reçu de plan d'activités décrivant les intentions de l'Association qu'après que cette dernière eut dépensé 2,7 millions de dollars des fonds qu'elle avait versés.

1.25 L'Agence a omis d'inclure d'importantes conditions dans l'accord de contribution avec l'Association et elle n'a pas suivi entièrement les directives du Conseil du Trésor pour l'accord conclu avec l'Association.

Commentaires de l'Agence : Transformer une grande base militaire qui dépense annuellement plus de 30 millions de dollars et qui emploie 565 employés afin d'activer des emplois durables pour les citoyens est un défi de taille pour un groupe de développement local. La Cornwallis Park Development Association (CPDA) a relevé ce défi. Il ne s'agissait pas d'une vérification de la CPDA et, par conséquent, elle ne visait pas nombre des allégations faites au cours des derniers mois. Comme le souligne le vérificateur général, la Police militaire enquête sur les inquiétudes formulées au sujet de l'enlèvement de biens de la base avant le transfert du droit de propriété.

La CPDA a fait des progrès considérables; mais, comme le souligne le vérificateur général, d'autres améliorations sont nécessaires. Déjà, la CPDA a obtenu un contrat annuel de deux millions de dollars pour exploiter un centre de formation des cadets de la marine; elle a restructuré les services publics du Parc pour réduire les coûts d'exploitation, a loué un certain nombre de bâtiments à de nouveaux locataires et cherche à profiter de plusieurs nouvelles possibilités de développement importantes. La CPDA a préparé un plan d'activités à long terme et le bureau de l'APÉCA en Nouvelle-Écosse travaille avec la CPDA pour renforcer sa capacité d'obtenir des résultats. Le conseil de la CPDA a adopté des lignes directrices strictes en matière de conflits d'intérêt. Le bureau de la Nouvelle-Écosse négocie d'autres améliorations aux lignes directrices en matière de coûts admissibles pour le financement de l'APÉCA et celles-ci seront intégrées à l'accord de contribution révisé avec la CPDA.

comme un budget annuel, établissant son orientation stratégique et ses activités prévues.

- Il ne définissait pas les coûts

particuliers admissibles au financement par l'Agence. Il a donc été très difficile pour celle-ci de déterminer quelles dépenses de l'Association devaient être financées.

1.18 Lorsqu'il a approuvé le

financement accordé par l'Agence, le Conseil du Trésor a précisé que

l'Association ne pourrait pas recevoir de financement pour les frais de gestion et d'entretien des actifs de la base. L'Agence

a inclus une clause dans l'accord limitant son financement aux coûts nécessaires

pour appuyer l'utilisation des actifs qui pouvaient être réutilisés à court terme.

Toutefois, nous avons constaté que le financement de l'Agence a été

principalement consacré à l'administration, à l'exploitation et à l'entretien des installations, et à des

améliorations aux immobilisations. Les représentants de l'Agence nous ont

informés que l'objet de ces dépenses était de contrôler les coûts de fonctionnement à long terme et d'empêcher la détérioration

de certains biens de l'ancienne base.

1.19 Des représentants de l'Agence

nous ont indiqué que l'accord avec l'Association avait été conçu de sorte que l'Association ait la latitude voulue pour

cerner les besoins locaux en matière de développement économique et y répondre.

Les paiements à l'Association ont été fondés sur les dépenses engagées et sur

des prévisions de trois mois. Le 15 août 1995, l'Association avait reçu 2,7 millions

de dollars ou 36 p. 100 du financement approuvé de l'Agence. De ce montant,

1,6 million de dollars a été avancé à l'Association afin qu'elle puisse exploiter

un camp d'été pour cadets, qui a par la suite été entièrement financé par la

Défense nationale. L'Association a engagé d'autres frais admissibles, qui n'avaient pas trait au camp pour cadets, que l'Agence a imputés à l'avance de

1,6 million. En date du 30 novembre 1995, l'Association signalait qu'elle avait

engagé en tout 3,2 millions de dollars en coûts admissibles, soit 0,5 million de plus

qu'elle n'avait reçu de l'Agence. Nous nous inquiétons du fait que l'Agence n'a

reçu une stratégie globale sur l'utilisation proposée de ses fonds que lorsqu'elle a

reçu un plan d'activités, le 1^{er} décembre 1995, soit 14 mois après la création de

l'Association.

1.20 À la fin d'août 1995, l'Agence a

examiné le fonctionnement de l'Association après avoir reçu une

demande de fonds supplémentaires de 2,4 millions de dollars. Au terme de cet

examen, elle a avisé l'Association, le 11 septembre 1995, de l'arrêt du

financement jusqu'à ce que les conditions clés suivantes soient respectées :

- la préparation d'un plan d'activités acceptable;

- l'établissement d'une division des tâches acceptable entre le personnel et le conseil d'administration de l'Association;

- l'élaboration de méthodes de fonctionnement écrites acceptables,

- des prévisions financières à plus long terme pour l'utilisation des recettes

provenant de l'exploitation et de la subvention de 6 millions de dollars de la

Défense nationale.

1.21 L'Association s'est conformée

aux conditions de l'Agence. Toutefois, des aspects clés du plan dépendent encore

d'études et d'une planification

supplémentaires. À titre d'exemple, le

l'établissement d'un cadre pour l'élaboration d'accords de contribution avec les bénéficiaires admissibles. Ces modalités autorisaient l'Agence à financer des organismes de développement locaux aux termes d'accords détaillés précisant le mode d'attribution, d'engagement et de comptabilisation des fonds.

1.11 Le 29 juillet 1994, l'Agence créait un organisme de développement local, soit la Cornwallis Park Development Association (l'Association). Son mandat consistait à orienter les possibilités de développement

économique des localités touchées et à prendre possession et à acquérir les droits de propriété des actifs de la base pouvant être réutilisés. L'Association a été constituée en société sans but lucratif en Nouvelle-Écosse. Comme le prévoient les règlements de l'Association, le ministre responsable de l'Agence de

développement économique du Canada atlantique a nommé le président de la Cornwallis Park Development Association.

1.12 Le 16 août 1994, l'Agence concluait avec l'Association un accord de contribution d'une valeur maximale de 7,5 millions de dollars afin de financer, sur cinq ans, les activités de cette dernière.

1.13 Le 30 mars 1995, le ministre de la Défense nationale signait avec l'Association un bail transférant à cette dernière, à compter du 1^{er} avril 1995, le contrôle et la responsabilité de l'ancienne base et de tous les actifs restants.

1.14 Le 27 avril 1995, le Conseil du Trésor approuvait la vente de l'ancienne base à l'Association, pour le montant symbolique de un dollar. La vente des actifs pour un dollar était fondée sur le fait que la valeur marchande des immobilisations était inférieure au coût de

leur vente. En outre, le ministre de la Défense nationale devait verser une subvention globale de 6 millions de dollars à l'Association pour l'aliénation des actifs de la base ne pouvant être réutilisés. Le ministre de la Défense nationale demeurait responsable du nettoyage dans le cas de tout dommage à l'environnement. La vente a été conclue le 31 janvier 1996. La Défense nationale nous a informés du fait que la Police militaire fait enquête à la suite d'inquiétudes formulées au sujet de l'enlèvement de biens de la base avant le transfert du droit de propriété.

1.15 Notre vérification de la participation de l'Agence à l'initiative d'adaptation communautaire avait comme objectif de déterminer si ses contrôles sur cette initiative étaient suffisants. Nous n'avons pas vérifié les activités de la Cornwallis Park Development Association.

Questions soulevées

1.16 L'accord de contribution conclu entre l'Agence et l'Association établissait les conditions de financement des activités de l'Association. Il n'exigeait pas de cette dernière qu'elle élabore et applique des lignes directrices visant à éviter les conflits d'intérêts, lors de l'engagement des fonds fournis par l'Agence. Il s'agissait d'une condition particulière du Conseil du Trésor.

1.17 En outre, l'accord ne comprenait pas les conditions suivantes que nous nous attendions de trouver :

- Il ne fournissait pas d'indicateurs de développement économique clairs se rattachant aux résultats escomptés des activités de l'Association.
- Il ne comportait aucune exigence relative à la préparation par l'Association d'un plan ou de tout autre document,

L'Agence de promotion économique du Canada atlantique

Vérificateur général adjoint : Wm. F. Radburn
Vérificateur responsable : John O'Brien

Préoccupations liées à une initiative d'adaptation communautaire

L'Agence de promotion économique du Canada atlantique est le ministère fédéral responsable des initiatives d'adaptation conçues pour aider les collectivités touchées par la fermeture de l'infrastructure militaire dans le Canada atlantique, y compris la fermeture de la Base des Forces canadiennes Cornwallis, en Nouvelle-Écosse. L'Agence a mis sur pied la Cornwallis Park Development Association, société sans but lucratif, et l'a chargée de mettre en oeuvre une initiative d'adaptation communautaire. L'Agence n'a pas clairement énoncé les résultats escomptés de cette initiative et elle n'a pas non plus établi en temps opportun quelles seraient les activités admissibles au financement, aux termes d'un accord de contribution de 7,5 millions de dollars avec l'Association. D'importantes conditions n'étaient pas incluses dans l'accord de contribution, notamment l'obligation pour le bénéficiaire d'élaborer et d'utiliser des lignes directrices en matière de conflits d'intérêts pour l'engagement des fonds fournis par l'Agence et la définition des coûts particuliers admissibles. L'Agence n'a reçu le plan d'activités de l'Association que 14 mois après la création de cette dernière. Pendant cette période, l'Agence a versé à l'Association 2,7 millions de dollars ou 36 p. 100 de son financement approuvé. L'Association a surtout consacré ces fonds à l'administration, à l'exploitation et à l'entretien des installations et à des améliorations aux immobilisations.

Contexte

1.9 Le Budget de février 1994

annonçait la fermeture de

sept établissements militaires dans le

Canada atlantique, ou leur réduction, y

compris la fermeture de la Base des

Forces canadiennes Cornwallis, en

Nouvelle-Écosse. Dans le cadre de la

stratégie gouvernementale

multiministérielle de réduction de

l'infrastructure militaire dans le Canada

atlantique, l'Agence de promotion

économique du Canada atlantique

(l'Agence) a été chargée de coordonner

les efforts fédéraux visant à aider les

collectivités touchées. Cette responsabilité

comprenait l'établissement de mesures

appuyant les efforts d'adaptation

comportait des modalités relatives à

L'approbation du Conseil du Trésor

était de 7,5 millions de dollars.

Base des Forces canadiennes Cornwallis

maximal accordé pour la fermeture de la

fermeture de la base. Le financement

du Canada atlantique touchées par la

de dollars pour le soutien des collectivités

l'Agence pour une somme de 30 millions

Trésor approuvait le financement de

1.10 Le 9 juin 1994, le Conseil du

Services gouvernementaux Canada.

par l'intermédiaire de Travaux publics et

processus d'aliénation de l'infrastructure

de l'ancienne base et devait gérer le

coordonner la garde provisoire des biens

Défense nationale était responsable de

communautaire. Le ministère de la

Introduction

1.6 Le présent chapitre traite de questions d'importance qu'il convient, à notre avis, de signaler à la Chambre des communes et dont nous n'avons fait mention nulle part ailleurs dans le Rapport. Les questions signalées ont été relevées au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des Comptes du Canada, des sociétés d'État et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.

1.7 Le paragraphe 7(2) de la *Loi sur le vérificateur général* exige que le vérificateur général porte à l'attention de la Chambre des communes tous les cas importants où il a constaté que :

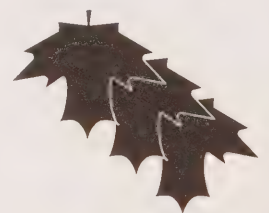
- les comptes n'ont pas été tenus d'une manière fidèle et régulière ou des deniers publics n'ont pas fait l'objet d'un compte rendu complet ou n'ont pas été versés au Trésor lorsque cela est légalement requis;
- les registres essentiels n'ont pas été tenus ou les règles et procédures utilisées ont été insuffisantes pour sauvegarder et contrôler les biens publics, assurer un contrôle efficace des cotisations, du recouvrement et de la répartition régulière

du revenu et assurer que les dépenses effectuées ont été autorisées;

- des sommes d'argent ont été dépensées à d'autres fins que celles auxquelles le Parlement les avait affectées;
- des sommes d'argent ont été dépensées sans un souci suffisant de l'économie ou de l'efficacité;
- des procédures satisfaisantes n'ont pas été établies pour mesurer et faire rapport sur l'efficacité des programmes dans les cas où elles peuvent convenablement et raisonnablement être mises en oeuvre.

1.8 Chacune des questions d'importance signalées dans le présent chapitre a été examinée conformément aux normes de vérification généralement reconnues; par conséquent, nos vérifications ont comporté les sondages et autres procédés que nous avons jugés nécessaires dans les circonstances. Les questions signalées ne devraient pas servir à tirer des conclusions au sujet de points que nous n'avons pas examinés. Les cas que nous avons observés sont décrits dans le présent chapitre, sous le nom du ministère concerné.

Le présent chapitre
traite d'un certain
nombre
d'observations sur
des questions
d'importance dont
nous n'avons fait
mention nulle part
ailleurs dans le
Rapport.



Points saillants

1.1 La Loi sur le vérificateur général exige du vérificateur général qu'il inclue dans ses rapports les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

1.2 Le chapitre consacré aux « Autres observations de vérification » joue un rôle particulier dans le rapport. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des ministères particuliers, ou bien ils donnent un compte rendu de vérifications et d'études qui portent sur des questions relatives aux activités du gouvernement dans son ensemble. Dans ce chapitre, nous faisons rapport sur des questions précises dont nous avons pris connaissance au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des Comptes du Canada, des états financiers des sociétés d'Etat et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.

1.3 Le chapitre renferme habituellement des observations qui se rapportent aux dépenses et aux recettes des ministères. En général, les questions traitées portent sur la non-conformité aux autorisations ainsi que sur les dépenses de deniers sans souci suffisant de l'économie.

1.4 Même si les observations de vérification particulières signalent des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions sur des points que nous n'avons pas examinés.

1.5 Les observations que nous faisons portent sur ce qui suit :

- le manque d'énoncé clair des résultats escomptés d'une initiative d'adaptation communautaire de 7,5 millions de dollars;
- de sérieux motifs d'inquiétude quant à la façon dont la Loi de l'impôt sur le revenu a été appliquée au transfert à l'étranger d'au moins deux milliards de dollars d'actifs détenus dans des fiduciaires familiales au Canada.

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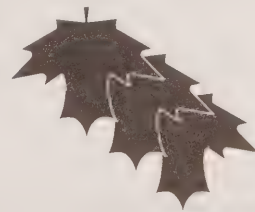
Les vérifications qui ont donné lieu aux autres observations ont été menées conformément au mandat législatif, aux politiques et aux méthodes du Bureau du vérificateur général. Ces politiques et méthodes respectent les normes recommandées par le Conseil sur la comptabilité et la vérification dans le secteur public (CCVSP) de l'Institut Canadien des Comptables Agréés.

Autres observations de
vérification

Chapitre 1

12.7 Lorsqu' Anciens Combattants Canada a entrepris d'instaurer des changements conçus pour améliorer l'efficacité de la mise en oeuvre du Programme pour l'autonomie des anciens combattants, il ne s'est pas entièrement conformé aux modalités établies par le Conseil du Trésor concernant la poursuite du système de vérification des paiements *a posteriori*. Nous avons relevé des lacunes au chapitre du processus d'évaluation des besoins de soins de santé, également prescrit par le Conseil du Trésor. Le Ministère ne dispose pas de données empiriques appropriées pour vérifier dans quelle mesure le Programme a eu des répercussions sur la santé des bénéficiaires ou s'il les a aidés à vivre de façon autonome chez eux et au sein de leur collectivité.

12.8 Le Ministère a réalisé des économies en instaurant un système de contrôle des services non pharmaceutiques offerts à ses clients. Il a également reconnu la nécessité d'améliorer les méthodes de contrôle des avantages de médicaments qu'il mettra en application en 1997. Le Ministère prévoit réaliser des économies de sept millions de dollars par année et améliorer la qualité des soins offerts en mettant en application des contrôles améliorés. En outre, sa méthode de contrôle des médicaments en vente libre est coûteuse.



Vérificateur général adjoint : Wm. F. Rabburn
Vérificateur responsable : John O'Brien

Chapitre 12 – Points saillants

- 12.1** Le Canada remplit notamment ses obligations envers ses anciens combattants par voie des programmes offerts par Anciens Combattants Canada. Les principaux programmes financés du Ministère ont trait aux pensions, au soutien du revenu et aux soins de santé. Au cours des dix dernières années, le programme des soins de santé est celui qui a connu la croissance la plus rapide. Les coûts ont en effet augmenté de 149 p. 100 en raison de questions de compétence avec les provinces, de l'élargissement des critères d'admissibilité aux programmes, de la bonification des avantages et de l'inflation, surtout à la fin des années 80.
- 12.2** Le Ministère n'a pas encore mis au point un plan global visant à répondre aux besoins futurs de ses clients en matière de soins de santé, pour les raisons suivantes :
- Il a très peu de données qui lui permettent de prévoir l'importance de sa clientèle à venir au chapitre des soins de santé. En outre, de nombreux anciens combattants et membres des forces armées sont susceptibles de devenir des clients et d'être admissibles aux prestations de soins de santé offertes par Anciens Combattants Canada.
 - Le Ministère n'a pas établi de prévisions en ce qui concerne les changements dans les besoins futurs de sa population de clients en matière de soins de santé et les répercussions de ces changements sur les programmes du Ministère.
- 12.3** Anciens Combattants Canada s'est engagé à réduire d'ici deux ans, de 18 à 9 mois, les délais de traitement des demandes de pension présentées en première instance. Nous entendons vérifier à l'avenir si le Ministère parviendra à respecter cet objectif.
- 12.4** Il y a un problème qui perdure entre Anciens Combattants Canada et certaines provinces au sujet de la responsabilité de certaines prestations de soins de santé versées aux anciens combattants admissibles en raison de leur revenu. Le Ministère a établi qu'il verse environ 50 millions de dollars par année pour ces prestations de soins de santé.
- 12.5** À notre avis, le Ministère dispose de méthodes de contrôle satisfaisantes pour déterminer l'admissibilité aux prestations de soins de santé.
- 12.6** Il n'existe aucune directive nationale concernant la qualité des soins de longue durée en établissement. Les méthodes de contrôle du coût des soins dispensés dans les établissements contractants sont déficientes. Les ententes de fonctionnement comportent des lacunes, les budgets sont souvent présentés après le commencement de l'exercice financier et les processus d'examen du fonctionnement accusent souvent des retards.

Revenu Canada

La lutte contre l'évitement de l'impôt sur le revenu

Vérificateur général adjoint : Shahid Minto
Vérificateur responsable : Barry Elkin



Chapitre 11 – Points saillants

11.1 Le coût de l'évitement de l'impôt sur le revenu n'est pas connu. Toutefois, les résultats du programme de Revenu Canada pour lutter contre l'évitement fiscal indiquent que celui-ci continue de menacer sérieusement l'assiette fiscale. Le Ministère s'attend à ce que le programme entraîne, en 1995-1996, l'établissement de 365 millions de dollars de nouvelles cotisations.

11.2 Le Ministère a entrepris des initiatives précises pour combattre les procédés d'évitement fiscal et dissuader les contribuables d'y recourir. Les activités de lutte contre l'évitement fiscal, dans les bureaux de district où nous sommes rendus, ont entraîné de nouvelles cotisations d'impôt importantes.

11.3 La prévention de l'évitement fiscal peut être source de recettes fiscales importantes. De plus, elle est essentielle si l'on veut maintenir l'intégrité du régime d'autocotisation. Dans notre rapport, nous indiquons des secteurs où il existe des possibilités de simplifier les activités et de renforcer l'obligation de rendre compte.

10.5 Le Service correctionnel axe ses activités sur la réintégration sociale et il a réussi à élaborer un large éventail de programmes d'intervention. Toutefois, il y a un manque de vigilance de la part des gestionnaires supérieurs pour ce qui est de déterminer la meilleure façon d'affecter les ressources en fonction de leur objectif global de réintégration en toute sécurité. Pour atteindre cet équilibre, le Service aura besoin de renseignements plus complets sur le coût et les avantages de ces programmes de réadaptation. Sans ces renseignements, il n'est pas en mesure de réévaluer et de réaffecter de façon stratégique son investissement dans les programmes de réadaptation.



Chapitre 10 – Points saillants

10.1 Le mandat du Service correctionnel consiste en partie à réadapter les délinquants qui sont sous sa garde. Comme la plupart des 14 000 délinquants actuellement incarcérés dans les pénitenciers fédéraux finiront par être libérés un jour, plusieurs soutiennent que ce rôle représente la partie la plus importante de son mandat. Cela est particulièrement significatif lorsqu'on considère que, par le passé, 28 p. 100 des délinquants ont commis de nouvelles infractions après leur mise en liberté.

10.2 Le Service correctionnel consacre environ sept pour cent de son budget annuel d'un milliard de dollars à des programmes axés sur les facteurs qui contribuent au comportement criminel. Les programmes habituels comme l'éducation, la formation professionnelle et les tentatives de réadaptation du Service correctionnel. Ils portent sur des facteurs comme la déviance sexuelle, la toxicomanie et le comportement antisocial. Le Service correctionnel a conçu une série impressionnante de programmes dont quelques-uns sont reconnus à l'échelle internationale.

10.3 Nous avons constaté des lacunes dans la gestion des 34 millions de dollars consacrés aux programmes d'intervention. Le Service consacre à deux contrats un nombre disproportionné de ressources d'intervention sans avoir l'assurance que les traitements seront fournis aux délinquants qui en ont besoin ou sans disposer d'une analyse qui indique que les résultats obtenus justifient leur coût. Ainsi, 17 p. 100 des sommes consacrées aux programmes pour les délinquants sexuels servent à traiter 20 délinquants alors que les 83 p. 100 qui restent sont dépensées pour 1 800 délinquants. En ce qui concerne les programmes de traitement de la toxicomanie, 16 p. 100 des sommes dépensées servent à traiter 100 délinquants alors que les 84 p. 100 qui restent sont dépensées pour 5 000 délinquants. Une autre lacune est que le Service n'a pas encore pleinement établi un ensemble de programmes pour bien aider les délinquants lors de leur passage de l'établissement à la collectivité. À l'heure actuelle, le Service ne peut répondre qu'à 65 p. 100 de la demande de participation à un programme de prévention des rechutes des délinquants sexuels libérés.

10.4 Il y a aussi des lacunes dans la gestion des programmes traditionnels. CORCAN (un atelier industriel en milieu carcéral) est le programme de réadaptation le plus coûteux du Service; il a englobé plus de 100 millions de dollars au cours des quatre dernières années. Les emplois au sein de CORCAN ont coûté 13 000 \$ par poste annuel à temps plein, en 1994-1995, tandis que le coût du programme éducatif et de la formation professionnelle s'est élevé à environ 7 500 \$ par étudiant à temps plein. En outre, la moitié des délinquants affectés à CORCAN n'avaient pas nécessairement besoin des compétences qu'ils leur étaient offertes. Autre fait préoccupant, plus de 95 p. 100 des ressources consacrées aux programmes d'employabilité du Service sont axées sur les établissements de sorte qu'il en reste très peu pour aider les délinquants à trouver du travail, une fois qu'ils ont réintégré la collectivité. Le Service n'a pas de stratégie cohérente pour se pencher sur la question de l'employabilité des délinquants. Il ne peut en arriver à une solution équilibrée sur la répartition des ressources.



Chapitre 9 – Points saillants

9.1 Le fait que le Canada soit relativement exempt de maladies animales et de parasites des végétaux et que ses normes sanitaires soient élevées a joué un rôle important dans sa capacité d'exporter chaque année pour plus de 17 milliards de dollars en produits agricoles et forestiers. La reconnaissance du bon état sanitaire de ses ressources végétales et animales à l'échelle internationale est essentielle pour maintenir l'accès aux marchés d'exportation.

9.2 Avec l'évolution de l'économie agricole mondiale, le Ministère se voit de plus en plus contraint d'accepter de nouvelles importations, ce qui accroît le risque pour le Canada. Pour pallier cette situation, le Ministère évalue le risque que comportent les importations et il réagit rapidement contre les dangers qu'il a décelés. Dans un même temps, il a accompli des efforts considérables pour moderniser son approche commerciale de la protection de la santé tout en s'ajustant aux importantes compressions de ses ressources.

9.3 Le Ministère a élaboré un processus d'évaluation des risques, pour lequel il a par la suite été reconnu à l'échelle internationale comme un chef de file dans ce domaine. Ce processus lui fournit une base scientifique pour l'aider à prendre des décisions en matière de gestion des risques. Il n'a pas encore évalué, en se servant de cet outil analytique, les menaces qui pèsent sur les ressources végétales et animales canadiennes, non plus que la situation des maladies, des mauvaises herbes et des substances toxiques visées par la réglementation, et il ne pourra le faire dans un avenir rapproché que s'il cesse de mettre l'accent sur les activités liées aux importations. Il s'ensuit que le Ministère ne dispose pas d'une information suffisamment fiable pour classer les dangers selon leur gravité, établir les priorités pour l'ensemble du Programme ou démontrer qu'il a utilisé de façon optimale les ressources disponibles.

9.4 Les objectifs du Programme ont été exprimés en termes mesurables. Toutefois, les cadres ont établi peu d'indicateurs de rendement ou d'information succincte qui puissent permettre aux parlementaires de comprendre et d'évaluer le rendement prévu et réel ainsi que les moyens qu'a pris le Ministère pour faire face aux flambées de maladies et aux infestations graves.

9.5 La mise en oeuvre du Programme de protection des végétaux et de santé des animaux mobilise une équipe d'au-delà de 1 100 employés (gestionnaires, inspecteurs et employés de laboratoire) et coûte plus de 100 millions de dollars par année. Le Ministère a appliqué des mesures visant à réduire ou à éviter certains coûts, mais il n'en reste pas moins qu'il continue à administrer le Programme et à planifier ses activités futures sans tenir compte de ce que lui permet le niveau actuel de ressources.

9.6 Le régime de recouvrement des coûts a été instauré pour certains services qui étaient dans le passé fournis sans frais, et il s'étendra à d'autres afin de compenser la forte réduction des fonds attribués au Programme. Si l'on tient compte des difficultés que comportent le maintien de la compétitivité de l'industrie et l'accès aux marchés internationaux, l'identification des bénéficiaires ainsi que la mise au point d'une formule souple et transparente de recouvrement des coûts, le Ministère a fait des progrès à court terme. Notre inquiétude majeure, toutefois, est que, présentement, il récupère moins que 60 p. 100 des coûts totaux de prestation du service, dont l'industrie est la principale bénéficiaire.

Service canadien du renseignement de sécurité La construction de l'immeuble abritant l'administration centrale

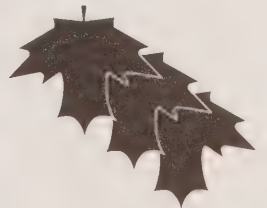
Vérificateur général adjoint : David Rattray
Vérificateur responsable : Reno Cyr



Chapitre 8 – Points saillants

- 8.1** Le Service canadien du renseignement de sécurité (SCRS) avait besoin, depuis sa création en 1984, d'une administration centrale (AC) dont les locaux seraient séparés de ceux de l'ancien Service de sécurité de la Gendarmerie royale du Canada, son prédécesseur.
- 8.2** La fin de la construction du nouvel immeuble de l'administration centrale, en 1995, a permis au SCRS de regrouper, en un seul lieu, les activités que l'administration centrale et le bureau régional d'Ottawa menaient dans dix locaux différents.
- 8.3** À notre avis, le projet a été bien géré dans l'ensemble. Il a été terminé dans les délais prévus et a respecté le budget. De plus, l'immeuble répond aux besoins fonctionnels des occupants.
- 8.4** Les facteurs qui ont contribué à la réussite du projet et les leçons tirées de l'expérience pourraient se révéler utiles pour d'autres projets de construction similaires. Un des facteurs de réussite a été le rôle prépondérant qu'a joué le SCRS, l'occupant de l'immeuble.
- 8.5** Nous croyons que l'équipe chargée du projet a réussi à faire en sorte que le nouvel immeuble procure un milieu de travail protégé aux employés du SCRS et à leurs activités.
- 8.6** Parce que la superficie brute construite dépasse de 13 000 mètres carrés les prévisions initiales sans qu'il y ait dépassement du budget approuvé, nous nous interrogeons sur la façon dont sont calculés les budgets consacrés aux projets et sur l'efficacité du contrôle que le Conseil du Trésor exerce sur ses autorisations de projets.
- 8.7** La reprise du plan du sixième étage, malgré les doutes exprimés par l'équipe chargée du projet et à un coût supplémentaire d'environ 1,4 million de dollars, n'a pas, à notre avis, amélioré de façon notable le caractère fonctionnel de l'immeuble.
- 8.8** Nous avons également noté que des montants ont été payés sur des contrats avant le début des travaux, ce qui contrevient aux dispositions de la *Loi sur la gestion des finances publiques*, et que les documents contractuels pour l'architecture étaient mal formulés, ce qui a atténué la responsabilité de ce dernier et entraîné une augmentation des coûts.
- 8.9** Nous avons enfin noté que, même si les autorisations et les budgets ont été respectés, il aurait été possible, dans certains cas, de réaliser davantage d'économies.

Le maintien de la paix — Défense nationale



Vérificateur général adjoint : David Ratnay
Vérificateur responsable : Peter Kasurak

Chapitre 7 – Points saillants

7.1 Les Forces canadiennes ont une fiche enviable dans le secteur du maintien de la paix et leurs missions ont été marquées d'actes de bravoure et de dévouement.

7.2 Le ministère de la Défense nationale planifie les missions de maintien de la paix dans un contexte fluide, souvent dans des délais très serrés. Ses activités de planification ont présenté des faiblesses en ce qui concerne le déploiement et la relève du personnel des missions. Le Ministère a toutefois amélioré ses modalités d'évaluation en ce qui a trait à la probabilité de réussite d'une mission dans son ensemble, à la capacité des Forces canadiennes de respecter les exigences d'une mission et à l'incidence d'un déploiement sur d'autres engagements.

7.3 La Force terrestre a conservé dans ses effectifs de campagne des soldats qui autrement auraient été écartés dans le cadre de la réduction du personnel militaire. Cela équivalait à 1 600 des 3 000 soldats supplémentaires que le gouvernement a affectés au maintien de la paix. Les autres augmentations ont été minimes à ce jour. Dans l'ensemble, même dans les catégories des membres du personnel les plus fortement utilisés, les militaires n'ont pas été surchargés de fonctions de maintien de la paix. De nombreuses restrictions d'ordre pratique se posent encore à l'utilisation de réservistes en mission de paix.

7.4 Le service du maintien de la paix des dernières années a fait ressortir de graves problèmes pour ce qui est de l'aptitude de la Force terrestre à constituer des forces polyvalentes :

- La Force terrestre ne met pas totalement à exécution ses plans d'instruction collective. Son exercice d'instruction le plus exhaustif a été remplacé par un exercice beaucoup plus restreint en raison de ses tâches liées au maintien de la paix. De nombreux exercices de moindre envergure prévus au cours des dernières années n'ont pas eu lieu.
- Il a fallu faire des achats de dernière minute importants pour fournir un niveau minimum d'équipement aux troupes déployées en mission de paix. En 1995, le ministère de la Défense nationale a conclu que les lacunes bien connues de ses véhicules blindés empêchaient de limiter à un niveau acceptable de risque les missions confiées aux troupes.
- Les plans de soutien médical du Ministère indiquent que l'hôpital de campagne projeté ne pourra fournir le soutien requis par les plans opérationnels de la Force terrestre.

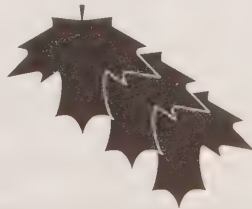
7.5 Le Ministère a expédié des approvisionnementnements et de l'équipement d'une valeur de 822 millions de dollars à l'appui des missions de maintien de la paix que nous avons étudiées. Par des rajustements, il a réduit de 67 millions de dollars la valeur des soldes des stocks. Il a également comptabilisé des pertes de 13 millions de dollars. Toutefois, au moment où nous avons effectué notre vérification, le Ministère a été incapable de trouver bon nombre des documents justificatifs requis. Les rajustements susmentionnés, ainsi que les pertes comptabilisées, restent donc en grande partie inexpliqués.

Chapitre 6 – Points saillants (suite)

6.6 Le Ministère ne possède pas de méthode établie pour effectuer des évaluations ou déterminer les « leçons tirées » d'une opération de maintien de la paix dans une optique de politique étrangère. Cette lacune augmente le risque de ne pas profiter pleinement de l'expérience acquise lors de participations antérieures.

6.7 Au cours des cinq dernières années, le Canada a recouvert 236 millions de dollars de l'ONU. Des remboursements totalisant 92 millions de dollars lui étaient dus au 31 mars 1996. Le montant et la rapidité des remboursements tiennent en grande partie à la situation de trésorerie de l'ONU, à la priorité accordée par le Canada à la fonction de recouvrement, aux factures et aux pièces justificatives et à l'acceptation par l'ONU des sommes facturées.

6.8 Une transparence et une responsabilité accrues permettraient d'éclairer davantage les décisions concernant les opérations de maintien de la paix. Il faudrait en outre raffermir l'administration des remboursements réclamés à l'ONU.



Chapitre 6 – Points saillants

6.1 Pour le ministère des Affaires étrangères et du Commerce international (MAECT), le maintien de la paix est un élément central de l'objectif de la politique étrangère du Canada, qui consiste à assurer la sécurité du pays à l'intérieur d'un cadre mondial stable. Au fil des ans, le Canada a participé à la plupart des missions de maintien de la paix.

6.2 La nature des opérations de maintien de la paix des Nations Unies a subi une transformation radicale depuis la fin de la guerre froide. Auparavant, le rôle principal de l'Organisation des Nations Unies (ONU) consistait surtout à contrôler les accords d'armistice entre États. De nos jours, on fait de plus en plus appel à l'ONU pour exécuter des missions d'une plus grande complexité, qui comportent un volet d'imposition de la paix aussi bien entre États que dans ceux-ci. En outre, un rôle de coordination et de coopération entre les autorités civiles et militaires s'est fait jour.

6.3 Les Nations Unies demeurent pour le Canada le principal instrument pour ses objectifs de sécurité mondiale; cependant, d'importantes contraintes limitent la capacité de l'Organisation d'exécuter efficacement sa fonction de maintien de la paix.

- La direction de l'ONU signale que, jusqu'ici, les États membres n'ont pas été prêts collectivement à doter l'Organisation des moyens dont elle a besoin pour effectuer les tâches additionnelles qui lui sont confiées, comme l'ont démontré les opérations en Somalie, au Rwanda, en Bosnie et en Haïti.
- Le Ministère signale que, lorsque leur mandat est imprécis et que leurs ressources sont insuffisantes, les missions ont peu de chance de réussir, en dépit d'améliorations apportées aux méthodes de gestion au siège de l'ONU.
- À l'encontre du Canada, un certain nombre de membres n'acquiescent pas leurs cotisations dans les délais prévus. Les fonds destinés au maintien de la paix servent donc de plus en plus à payer les coûts du budget régulier, qui accuse lui aussi de sérieux arriérés de cotisations.

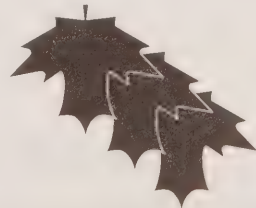
6.4 Le Canada, qui accorde la plus grande importance à la réforme de l'ONU, a collaboré à plusieurs propositions visant à améliorer l'efficacité des opérations de maintien de la paix. Toutefois, pour pouvoir opérer des réformes importantes, l'ONU doit avoir l'assentiment des 185 membres de l'Assemblée générale. Un tel consensus est difficile à obtenir lorsqu'il s'agit de changements.

6.5 Le coût global, tant financier que non financier, des opérations canadiennes de maintien de la paix ne figure dans aucun document public. Le coût financier a monté en flèche ces dernières années par suite de l'augmentation du nombre et de la taille des missions, passant d'environ 47 millions de dollars en 1991–1992 à quelque 240 millions de dollars en 1995–1996, soit une augmentation de 410 p. 100. Le coût de la participation aux opérations de maintien de la paix de l'OTAN en Bosnie et la décision qu'a prise récemment le Canada d'envoyer des troupes en Haïti ajouteront à cette augmentation.



Chapitre 5 – Points saillants

- 5.1 La réforme de la classification et de l'évaluation des postes constituait l'un des principaux changements systémiques liés au renouvellement de la fonction publique. En raison de leurs liens importants avec d'autres systèmes, tels que les relations de travail et l'administration de la paye, la classification et l'évaluation des postes sont considérées comme la pierre angulaire de la gestion des ressources humaines dans la fonction publique.
- 5.2 Pour donner suite à des recommandations de changements, le Secrétariat du Conseil du Trésor s'est chargé d'élaborer un seul plan d'évaluation des postes pour remplacer les quelque 70 plans actuellement en usage et réduire considérablement le nombre de groupes et de sous-groupes professionnels servant à classifier les postes. Compte tenu du contexte difficile, c'était là un défi de taille.
- 5.3 À la suite de notre vérification de la version de la Norme générale de classification de juin 1995, nous avons conclu qu'après environ six ans, le défi présenté par la réforme n'avait été que partiellement relevé :
- Le nouveau plan d'évaluation des postes élaboré par le Secrétariat constitue une véritable amélioration et comporte maints aspects prometteurs. Il reste cependant de nombreuses questions importantes à régler pour que ce plan soit un instrument valide et fiable qui permette l'évaluation de tous les postes dans la fonction publique tout en respectant les exigences de parité salariale qui découlent de la *Loi canadienne sur les droits de la personne*.
 - Il est possible de simplifier davantage et de réduire les coûts de la classification et de l'évaluation des postes et de certains des systèmes et pratiques connexes, tels que l'administration de la paye.
- 5.4 Même si le Secrétariat du Conseil du Trésor a entrepris la réforme en se fixant comme objectif la « neutralité des coûts », nous avons constaté que les coûts et les avantages de la réforme n'étaient pas connus avec précision.
- 5.5 À la fin de la vérification, le Secrétariat prenait un certain nombre de mesures importantes pour régler les problèmes décelés dans le cadre de la vérification. La Norme est prometteuse et il est possible de la corriger. Le succès de la réforme dépendra toutefois de la volonté et de la capacité des parties intéressées de travailler ensemble à l'atteinte des objectifs de la réforme et ce, à un coût raisonnable pour le contribuable.



Chapitre 4 – Points saillants

4.1 Le gouvernement vit une période de changement considérable : il rationalise et restructure les ministères en vue de réduire les coûts de l'administration tout en maintenant ou en améliorant la mise en oeuvre des programmes publics pour les Canadiens et les Canadiennes. Même si ces changements peuvent influencer la nature et le lieu des contrôles organisationnels, ils ne réduisent pas la nécessité pour l'organisation d'exercer un contrôle. Dans ce contexte, une vérification interne efficace est plus importante que jamais pour garantir la gestion avisée des programmes et activités ministérielles.

4.2 Un service de vérification interne efficace est un outil de gestion fondamental. Il peut fournir aux sous-ministres des assurances quant à l'efficacité et à l'efficacité des activités financières, administratives et opérationnelles clés et des pratiques de gestion des ministères, ainsi que des propositions en vue de leur amélioration.

4.3 L'appui de la haute direction est essentiel pour que la vérification interne contribue efficacement à l'organisation. Dans une large mesure, le respect dont jouit la vérification interne auprès des gestionnaires des opérations est tributaire de la relation qui existe entre celle-ci et la haute direction. Nous avons constaté que même si la haute direction appuie généralement la fonction de vérification interne, sa vision du rôle de celle-ci est plus restreinte que celle des cadres supérieurs du secteur privé.

4.4 Le Secrétaire du Conseil du Trésor mène un certain nombre d'activités qui, à son avis, sont conçues pour favoriser la mise en oeuvre et surveiller l'efficacité de la politique de vérification interne dans le cadre de la politique d'examen. Nous pensons que ces efforts n'ont pas été suffisants pour permettre une évaluation de l'efficacité de la mise en oeuvre de la politique de vérification interne.

4.5 Si le rendement de quelques services de vérification interne s'est amélioré depuis 1993, nous avons constaté que, dans l'ensemble, il n'y avait guère eu d'amélioration depuis notre vérification de 1993. Sur les sept services de vérification interne ministériels que nous avons examinés en détail, quatre ne se conformaient toujours pas aux normes établies pour la pratique de la vérification interne.

4.6 Nous avons constaté que la couverture des systèmes en développement par la vérification interne s'est améliorée. Cependant, d'autres améliorations doivent être apportées dans d'autres domaines pour que la vérification interne donne tout son potentiel.

4.7 Pour ce faire, la vérification interne doit mieux équilibrer l'étendue de ses travaux, notamment les questions de conformité et de contrôle et l'évaluation de l'efficacité et de l'efficacité des opérations ministérielles.

4.8 Dans le cadre de notre vérification, nous avons évalué la mesure dans laquelle les ministères utilisaient des méthodes et des techniques adéquates pour mesurer l'efficacité de leurs services de vérification interne — c'est-à-dire, leur apport à l'amélioration du fonctionnement du ministère. En 1993, nous avions constaté que pratiquement aucun service de vérification interne ne mesurait son rendement. Cependant, environ la moitié des services de vérification interne le font maintenant d'une manière ou d'une autre.



Chapitre 3 – Points saillants

3.1 Le gouvernement a reconnu qu'il fallait une meilleure information sur les résultats des programmes pour appuyer ses décisions et améliorer sa façon de fonctionner. Pour obtenir de l'information sur les résultats finaux des programmes gouvernementaux, il faut mesurer et analyser méthodiquement l'efficacité des programmes. Le besoin de faire des études d'efficacité des programmes — communément appelées évaluations — croît en raison de l'examen minutieux auquel les programmes gouvernementaux sont soumis.

3.2 La modification du milieu a rendu la planification et la réalisation d'évaluations plus difficiles. Une nouvelle politique d'examen du Conseil du Trésor reconnaît la responsabilité des gestionnaires de programmes dans le domaine de la mesure du rendement des programmes. On y reconnaît également que la mesure et l'analyse de l'efficacité peuvent venir d'une foule d'études, mais on n'y précise pas les normes qui s'appliquent lorsque la mesure et l'analyse sont effectuées dans le cadre d'examen autres que des évaluations.

3.3 Les questions qu'un ministère choisit d'évaluer sont le reflet de décisions fondées en grande partie sur ses intérêts et ses priorités. Les évaluations continuent de faire ressortir les besoins des gestionnaires du ministère — car elles portent principalement sur des petites composantes de programmes et sur des questions opérationnelles. De telles études peuvent fournir des appuis précieux à la direction. Un bon gouvernement exige également de l'information globale sur l'efficacité des programmes pour la prise de décisions et une meilleure reddition de comptes. Cette information n'est pas toujours disponible. Les ministères ont prouvé qu'ils peuvent répondre aux demandes d'information sur les résultats des programmes clés. Nous avons constaté, par exemple, qu'ils ont fait des progrès quant à l'évaluation de l'efficacité des programmes dont les dépenses sont supérieures à un milliard de dollars par année.

3.4 Les ministères, excepté certains des plus petits, ont maintenu leurs niveaux d'appui financier à l'évaluation; cependant, certains aspects importants de la gestion de l'évaluation dans les ministères ne se sont pas améliorés. L'étendue et la qualité des évaluations demeurent des sujets de préoccupation.

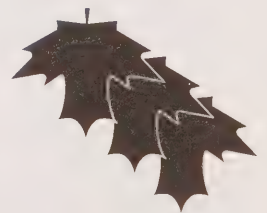
3.5 Le gouvernement a instauré des mesures susceptibles d'améliorer la planification de l'évaluation et d'appuyer la progression constante de l'évaluation de ses programmes clés. Le système renouvelé de gestion des dépenses exige que les ministères soumettent des plans d'activités assortis de priorités en matière d'examen des programmes, y compris en matière d'évaluation et de vérification interne. Cette approche offre la possibilité d'établir un lien entre les plans d'évaluation ministériels et le processus budgétaire. Au cours de la première année, environ les deux tiers des plans ont fait état de priorités en matière d'examen. Toutefois, on en est aux premières étapes de l'élaboration du système. Le gouvernement doit encore veiller à ce que les priorités individuelles des ministères en matière d'évaluation reflètent ses priorités dans ce domaine. Pour ce faire, il doit énoncer systématiquement ses priorités en matière d'évaluation, déceler les lacunes au niveau de l'activité d'examen et veiller à ce qu'elles soient comblées.

3.6 Le président du Conseil du Trésor a soumis au Parlement un rapport sur le rendement de l'examen au gouvernement qui constitue une première étape encourageante. Dans les prochains rapports, il faudra trouver des mesures plus concrètes et une présentation plus fidèle des succès du gouvernement dans le domaine de la mesure et de l'analyse de l'efficacité des programmes.



Chapitre 2 – Points saillants

- 2.1** Depuis qu'elle a été annoncée dans le *Plan vert* (1990), la gérance environnementale est pratiquée par les ministères et les organismes fédéraux. En 1992, le *Code de gérance de l'environnement* pour le gouvernement du Canada fournissait une orientation pour « l'écologisation » des opérations gouvernementales, qui comprend la préparation de plans d'action environnementaux. La plupart des organismes continueront de fonctionner selon le Code, mais les ministères sont tenus, depuis décembre 1995, de préparer des stratégies de développement durable et des plans de mise en oeuvre, conformément aux modifications apportées à la *Loi sur le vérificateur général*.
- 2.2** Un cadre stratégique de gérance environnementale, élaboré en 1991, assignait des responsabilités dans ce domaine aux ministères et aux organismes. Cependant, le programme n'a pas été mis en oeuvre comme il avait été prévu. En effet, les ministères et les organismes n'ont généralement pas préparé ou mis à jour de plans d'action ni soumis de rapports d'étape.
- 2.3** Comme le processus d'écologisation est maintenant dans une période de transition, c'est le moment d'examiner les progrès faits à ce jour et d'effectuer tous les changements qui sont nécessaires afin qu'il puisse se poursuivre. À notre avis, des progrès considérables ont été faits depuis 1992, mais il faut encore tirer des leçons de nos expériences passées.
- 2.4** Il faut un leadership pour assurer la durabilité du processus d'écologisation, tant dans l'ensemble du gouvernement que dans les ministères et les organismes. La responsabilité de la mise en oeuvre du processus doit être précisée.
- 2.5** La gestion de l'information doit être améliorée pour que le processus se déroule comme prévu. Environnement Canada, en qualité de facilitateur, a élaboré certains outils, notamment des projets pilotes, des ateliers et des documents d'orientation, mais ceux-ci ne sont pas toujours parvenus aux clients ou n'ont pas toujours été adaptés à leurs besoins. En outre, on n'a pas saisi l'occasion de constituer, pour l'ensemble du gouvernement, une banque de données servant de source d'information à tous les participants et à la préparation de rapports cumulatifs.
- 2.6** Les rapports cumulatifs fournissent aux décideurs l'information dont ils ont besoin pour s'assurer que le processus d'écologisation est bien orienté, se déroule selon le calendrier prévu et permet la réalisation de l'objectif de développement durable. En réalité, l'information communiquée a jusqu'ici été sélective, et aucun rapport cumulatif véritable n'a été produit; il ne semble pas non plus qu'il y ait de plans prévoyant de tels rapports cumulatifs à l'avenir.



Chapitre 1 – Points saillants

- 1.1** La *Loi sur le vérificateur général* exige du vérificateur général qu'il inclue dans ses rapports les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.
- 1.2** Le chapitre consacré aux « Autres observations de vérification » joue un rôle particulier dans le rapport. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des ministères particuliers, ou bien ils donnent un compte rendu de vérifications et d'études qui portent sur des questions relatives aux activités du gouvernement dans son ensemble. Dans ce chapitre, nous faisons rapport sur des questions précises dont nous avons pris connaissance au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des Comptes du Canada, des états financiers des sociétés d'Etat et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.
- 1.3** Le chapitre renferme habituellement des observations qui se rapportent aux dépenses et aux recettes des ministères. En général, les questions traitées portent sur la non-conformité aux autorisations ainsi que sur les dépenses de deniers sans souci suffisant de l'économie.
- 1.4** Même si les observations de vérification particulières signalent des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions sur des points que nous n'avons pas examinés.
- 1.5** Les observations que nous faisons portent sur ce qui suit :
- le manque d'énoncé clair des résultats escomptés d'une initiative d'adaptation communautaire de 7,5 millions de dollars;
 - de sérieux motifs d'inquiétude quant à la façon dont la *Loi de l'impôt sur le revenu* a été appliquée au transfert à l'étranger d'au moins deux milliards de dollars d'actifs détenus dans des fiducies familiales au Canada.



Avant-propos

Je suis heureux de vous présenter le volume de mai de mon rapport de 1996. Cet Avant-propos est suivi des Points saillants et du Chapitre 1 — Autres observations de vérification. Onze chapitres additionnels sont publiés séparément :

2. La mise en oeuvre de la gérance environnementale au gouvernement fédéral
3. L'évaluation au gouvernement fédéral
4. La vérification interne dans les ministères et les organismes
5. La réforme de la classification et de l'évaluation des postes dans la fonction publique
6. et 7. Le maintien de la paix
 - Affaires étrangères et Commerce international Canada
 - Défense nationale
8. Service canadien du renseignement de sécurité — La construction de l'immeuble abritant l'administration centrale
9. Agriculture et Agroalimentaire Canada — La protection des végétaux et la santé des animaux : inspection et réglementation
10. Service correctionnel Canada — Les programmes de réadaptation des délinquants
11. Revenu Canada — La lutte contre l'évitement de l'impôt sur le revenu
12. Anciens Combattants Canada — Les soins de santé

La structure du gouvernement et la nature des programmes gouvernementaux évoluent en raison de ressources sans cesse réduites et des nouvelles attentes du public. Plusieurs chapitres de ce rapport soulignent l'importance de fonder les décisions sur un programme fort, un leadership ministériel solide, un engagement à l'égard des choix en matière de politique et une information pertinente. La disponibilité de l'information et la volonté d'appliquer de bonnes pratiques de gestion auront une incidence sur l'évolution du gouvernement et donc, d'une façon ou d'une autre, sur l'avenir de la plupart des Canadiens.

Les gestionnaires du gouvernement disposent des outils essentiels. Comme l'indiquent les chapitres du Rapport, certains gestionnaires utilisent ces outils avec plus d'habileté et de constance qu'on ne le faisait dans le passé. D'autres ont montré un manque d'engagement à l'égard de la politique établie et n'ont pas fait preuve de leadership nécessaire à une bonne gestion de programme. Cependant, la présentation de l'information au Parlement, de telle sorte qu'elle puisse être utilisée de façon productive, comporte encore des lacunes. Est-ce que les programmes produisent les résultats attendus? Existe-t-il des solutions de rechange moins coûteuses mais tout aussi efficaces? Les ressources limitées sont-elles affectées là où les besoins sont les plus grands ou là où elles produisent les meilleurs résultats? Les décideurs connaissent-ils les répercussions des solutions de rechange qu'ils retiennent ou rejettent? Voilà le genre d'information que les fonctionnaires doivent recueillir, utiliser et fournir afin que les Canadiens puissent avoir l'assurance que leur gouvernement prend les décisions éclairées qui les orienteront dans les années à venir.

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Avant-propos et Points saillants

Mai 1996



À l'honorable Président de la Chambre des communes :

J'ai l'honneur de vous transmettre ci-joint mon premier rapport de 1996 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(5) de la Loi sur le vérificateur général.

Le vérificateur général du Canada,

A handwritten signature in dark ink, appearing to read "L. Denis Desautels".

L. Denis Desautels, FCA

OTTAWA, le 7 mai 1996

Le Rapport de mai 1996 comporte 12 chapitres ainsi qu'un Avant-propos et Points saillants. Pour mieux répondre aux besoins de nos clients, il est disponible sur divers supports. Pour obtenir d'autres documents ou les obtenir sur un autre support, voir la Table des matières et le bon de commande à la fin du présent document.

Dans le présent rapport, le genre masculin est utilisé sans aucune discrimination et uniquement dans le but d'alléger le texte.

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Mai 1996

Chapitre 1
Autres observations de vérification

Avant-propos et Points saillants

Rapport du
Vérificateur général
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à la Chambre des communes

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à la Chambre des communes

Rapport du
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Publications

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 2
The Implementation of
Federal Environmental Stewardship

May 1996

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Chapter 2
The Implementation of
Federal Environmental Stewardship



May 1996

This May 1996 Report comprises 12 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 2

The Implementation of Federal Environmental Stewardship

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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The Implementation of Federal Environmental Stewardship

Assistant Auditor General: Robert R. Lalonde

Responsible Auditor: Wayne Cluskey

Main Points

2.1 Since its announcement in the Green Plan (1990), environmental stewardship has been practised by federal departments and agencies. In 1992 the federal Code of Environmental Stewardship provided direction for the “greening” of government operations, which includes the preparation of environmental action plans. While most agencies will continue to operate under the Code, departments as of December 1995 are required to prepare sustainable development strategies and plans for their implementation, following amendments to the *Auditor General Act*.

2.2 A strategic framework for environmental stewardship, laid out in 1991, assigned responsibilities to departments and agencies. However, the program was not implemented as foreseen. This is illustrated by the generally poor response rate of departments and agencies in preparing and updating action plans and providing progress reports.

2.3 As the greening process is now in a period of transition, it is a good time to review progress to date and make any necessary changes to maintain its momentum. In our view, while considerable progress has been made since 1992, there are lessons to be learned from past experiences.

2.4 There is a need for leadership for the greening process both government-wide and within individual departments and agencies. Responsibility for the implementation of the process must be clarified.

2.5 Information management needs to be improved if the process is to remain on track. While Environment Canada, as facilitator, has developed a number of tools including pilot projects, workshops and guidance documents, these have not always reached clients or been tailored to their needs. Furthermore, the opportunity has not been taken to develop a government-wide data bank to be used as an information source for all participants and for aggregate reporting.

2.6 Aggregate reporting provides decision makers with the information necessary to ensure that the greening process is focussed, on schedule and moving toward the goal of sustainable development. In fact, reporting has been selective to date and no true aggregate report has been produced, nor do there appear to be any plans for such aggregate reporting in the future.

Introduction

2.7 Federal environmental stewardship is an initiative that was first announced in Canada's Green Plan (1990). It is the vehicle being used to demonstrate the government's commitment to sustainable development and to ensure that all of its operations and procedures meet national targets and schedules for sustaining the environment. As the single-largest business and employer in Canada, with an annual purchasing power of over nine billion dollars, the federal government is in a position to lead by example by integrating environmental considerations into all of its decisions and day-to-day activities. This constitutes the "greening" process.

2.8 The government committed to implementing its stewardship initiative through the use of the Code of Environmental Stewardship released in 1992. The Code outlined areas to be addressed by departments and agencies through the development and implementation of action plans. The reporting of such actions was the means by which the federal government demonstrated that it is practising what it preaches, and by which it was to be held publicly accountable for meeting its environmental commitments.

2.9 In 1992, Environment Canada established the Office of Federal Environmental Stewardship (OFES) to promote and facilitate the implementation of the Code. It also signed an Environmental Accountability Partnership (EAP) agreement with the Treasury Board Secretariat (TBS) to improve co-ordination between them and, primarily, those departments with responsibilities for the management of lands and buildings. This agreement provides a means to build consensus on

environmental accountability in government operations, through the EAP Steering Committee and the various technical working groups reporting to it.

2.10 The stewardship initiative has been carried a step further with the publication of the *Guide to Green Government* and other documents and the amendments to the *Auditor General Act* that came into force on 15 December 1995. These now require ministers to prepare sustainable development strategies and plans to implement them, and to table the strategies and plans in Parliament by December 1997. On behalf of the Auditor General, the new Commissioner of the Environment and Sustainable Development will monitor departmental strategies, and report to the House of Commons on the extent to which departments have met the objectives set out in them. The greening process has also become a key element in the government's *Pollution Prevention Strategy* released in 1995. Thus, Canada's journey toward sustainable development that began in the 1970s will continue to the end of the century and beyond (see Exhibit 2.1). These sustainable development strategies will replace the action plans required under the Code of Environmental Stewardship for departments and some agencies.

2.11 Our audit objective was to document lessons learned from the results of the application of the Code of Environmental Stewardship by federal departments and agencies to their operations, under the guidance of Environment Canada's Office of Federal Environmental Stewardship (OFES). We looked at Environment Canada's activities as facilitator; at departmental and agency response to the requirements of the Code; and at the government's plans for ensuring continued progress toward sustainable

The federal government is in a position to lead by example.

development. We expect that the results will assist departments and agencies as they deliver on their commitment to integrate sustainable development into the government's operations "right across the board," as stated in its June 1995 *A Guide to Green Government*. The audit will also

provide important baseline information for the Office of the Auditor General and the new Commissioner of the Environment and Sustainable Development for future audit work. Details about the conduct of the audit are presented at the end of the chapter.

Exhibit 2.1

Canadian Actions on the Road to Sustainable Development

1971	Creation of the Department of Environment
1973	Environmental Assessment and Review Process (EARP) introduced
1984	EARP Guidelines Order issued by order-in-council
1986	The Department of National Defence begins environmental baseline studies of its bases
1988	<i>Canadian Environmental Protection Act</i> (CEPA) proclaimed. Provision under Part IV to make regulations that apply to federal works, lands and undertakings for the protection of the environment
1989	Transport Canada develops environmental management plan for its airports
1990	Canada's Green Plan lays out road to sustainable development through the application of federal environmental stewardship Departments and agencies begin review of environmental implications of existing statutes, policies and programs
1992	Code of Environmental Stewardship introduced and departments and agencies begin preparation of action plans required under the Code
1995	<i>Canadian Environment Assessment Act</i> (CEAA) proclaimed Parliamentary review of the <i>Canadian Environmental Protection Act</i> (CEPA) The <i>Alternative Fuels Act</i> passed "A Guide to Green Government" and "Directions on Greening Government Operations" are released to assist departments Pollution Prevention Strategy embodies the greening process as a key element for successful implementation <i>Auditor General Act</i> amended to create the position of Commissioner of the Environment and Sustainable Development, requiring departments to prepare sustainable development strategies and with provision for ministers to expand the program
1996	Expected appointment of the first Commissioner of the Environment and Sustainable Development
1997	Required tabling of sustainable development strategies by ministers
1997 & beyond	Continued monitoring of sustainable development strategies by the Commissioner of the Environment and Sustainable Development and reporting on progress

Observations

The Commitment to Environmental Stewardship

Assignment of responsibilities

2.12 These were clearly laid out in 1991 together with a long-term strategic framework for accomplishing the task. The environmental stewardship initiative was to be implemented by departments and agencies that were to make pledges in the form of action plans to carry out the intent of the Code of Environmental Stewardship. They were to report regularly on their accomplishments in achieving the goals outlined in their plans. Furthermore, they were to implement policies and procedures for environmental audits. Such audits were to be used to measure performance against goals and objectives.

2.13 Environment Canada's role in the implementation of the federal environmental stewardship initiative was to comprise a series of interrelated activities including ongoing strategic policy direction and review, program development and management, analysis and research, liaison and consultation, product development and service delivery, monitoring and aggregate reporting, and program evaluation of OFES.

2.14 The Office of Federal Environmental Stewardship (OFES) was to act as the focal point for co-ordination of these government-wide efforts to integrate environmental concerns into day-to-day operations. Its specific responsibilities were to include developing an interdepartmental environmental network to share experiences and information, establishing and maintaining a project and information data bank, producing information/awareness products and

services such as guidelines, manuals and newsletters and conducting workshops and training seminars.

Environment Canada's interpretation of its role and responsibilities

2.15 While the government made a commitment to implement the stewardship initiative in all departments and agencies, Environment Canada saw the process as a voluntary one. However, the only reference to such a voluntary approach in the documents we reviewed was with respect to Crown corporations, which were excluded from the initiative but were to be "encouraged" to adopt the Code in their operations.

2.16 Given this interpretation of its mandate, Environment Canada's approach may have sent a mixed message to departments and agencies regarding their responsibilities under the Code. The letters sent to departments and agencies used such phrases as "Each department is requested" (rather than each department is required, as used in the French version) "to prepare environmental pledges in the form of action plans as stated in the Code." Furthermore, the letters said, "There is no specific requirement (for agencies) to provide action plans to Environment Canada," although they were asked to provide success stories to help Environment Canada fulfill its reporting responsibilities. In our opinion, this had a significant impact both on the way the OFES discharged its responsibilities as "facilitator" and on the response of departments and agencies. For example, the production of action plans, progress reports and updates was limited and such documents were not always forwarded to the OFES.

2.17 On the positive side, Environment Canada sought central agency involvement by forming the Environmental Accountability Partnership

Environment Canada saw the process as a voluntary one.

The partnership improved co-ordination and exchange of information.

There was evidence that some action had been taken.

The files contained few departmental progress reports.

(EAP) with the Treasury Board Secretariat (TBS) in 1992. This partnership, which improved co-ordination and the exchange of information among participants, played and continues to play an important role in facilitating the greening process.

Action Plan Development and Implementation Not up to Expectations

2.18 Departments and agencies must also bear responsibility for the fact that the Code has not been implemented completely. Many have been slow in preparing action plans and delinquent in providing comprehensive progress reports showing internal strengths and weaknesses. At the time of our audit, the OFES had received completed action plans for only 16 of 25 departments (later reduced from 25 to 19 departments under the government reorganization of 1993–94) and 9 of 78 agencies originally contacted by Environment Canada in 1992. Because the action plan was the vehicle that drove the stewardship initiative in departments and agencies, we felt that an analysis of such plans would indicate the areas that were being addressed. As the OFES files contained no analysis of the contents of these plans, we conducted our own.

Initial analysis revealed several areas for improvement

2.19 Using the OFES guidelines for preparing action plans, we analyzed not only action plans but also progress reports and updated plans. Categories we examined included human and financial resource allocation, assignment of responsibility for environmental management, government procurement, water conservation, waste reduction, energy conservation, land use management, human resource

management, vehicle fleet management, environmental audit and “green” office practices. Additional categories included the use of waste energy for heating and other purposes, asbestos management, pesticide management, emergency response procedures, sewage and septic tank management and environmental assessment and review procedures.

2.20 The majority of departments and agencies submitting action plans were already addressing land use and human resource management, and green office practices. In addition, some departments had begun to address remedial planning; others had promoted stewardship extensively within their departments, including the training of personnel.

2.21 In other areas, such as government procurement, water conservation, waste reduction and energy conservation, there was evidence that some action was being taken. However, in vehicle fleet management little action had been taken — in spite of the government’s focus on that issue for some time. Furthermore, little action had been taken by departments and agencies on environmental audit, a requirement of the stewardship initiative. Such audits can be used to measure performance against goals and objectives.

2.22 The files contained few departmental progress reports and updated action plans. Analysis of the OFES files revealed that, of the departments that had submitted action plans to the OFES, only one had submitted a progress report. None had been received from agencies. Similarly, only one department and one agency had prepared updated plans. As with the action plans themselves, no analysis of the content of progress reports or updated plans could be found in the OFES files.

New information obtained from the OAG survey questionnaire and other sources

2.23 To supplement and update information on the application of the Code of Environmental Stewardship, we surveyed departments and agencies in 1995 using a questionnaire we had developed and piloted in three major departments. We contacted 19 departments and 61 agencies. All received a questionnaire, except for 16 agencies that were contacted by telephone. Completed questionnaires were received from all 19 departments and from 42 of the 45 agencies.

2.24 We found that 14 of the 19 departments that completed questionnaires had produced action plans. Of the 5 remaining, 3 were new departments created under the government reorganization of 1993–94 and had yet to prepare comprehensive plans covering all their operations.

2.25 In agencies the picture was very different. Among the 42 completed questionnaires we received, only 13 agencies had what might be considered an action plan. We had expected that all agencies would have an action plan, even if limited to green office practices due to the agency's small size or the nature of its operations.

2.26 Of the 14 departments that had produced an action plan, only 7 produced a progress report. Thirteen agencies had produced an action plan but only 3 had produced a progress report. Similarly, of the 14 departments that had produced an action plan, only 8 subsequently produced an updated plan. Of the 13 agencies with action plans, only 5 had updated them. Given that progress reports and action plan updates are necessary inputs for reporting on the overall status of the

stewardship initiative, we found these results somewhat disappointing.

2.27 Policies and procedures for environmental audits have not been implemented. When asked in the survey questionnaire whether they were implementing such policies and procedures, 13 departments and 38 agencies indicated that they were not. Furthermore, 7 of the 14 departments with action plans had not used environmental audits to measure performance against goals and objectives. Similarly, 10 of the 13 agencies that had action plans did not verify results through environmental audit. However, it should be noted that the survey questionnaire did not explore other options that may have been used to verify results.

2.28 We received additional material on federal vehicle fleet management from Environment Canada. This included "*A Manager's Guide to Greening the Fleet*" (1995) and other material indicating that some departments are making progress in this area. The *Alternative Fuels Act* (1995) requires all departments, agencies and Crown corporations to ensure that by 1 April 1997 at least 50 percent of vehicles in their fleets have engines capable of operating on alternative fuels.

"Government-wide" in name but not in application

2.29 The then government's intention, as stated in the Green Plan, was to green all of its operations. However, the Code does not apply to Crown corporations even though they constituted over 30 percent of government organizations contacted by the OFES in 1992. This indicates their significance when defining the term "government-wide". Even with the changes put in place in 1995, Crown corporations remain outside the requirements of the greening process.

Policies and procedures for environmental auditing have not been implemented.

Sufficient information has not been received by all clients.

2.30 In fact, the application of the stewardship initiative has further narrowed in that many agencies were not kept informed after initial contact. This may explain their generally poor response in providing action plans, progress reports and updates. Effort by the Office of Federal Environmental Stewardship was concentrated on departments to maximize use of its limited resources.

Information Management Can Be Improved

2.31 In spite of the small size and limited resources of the OFES, it has accomplished many of the information management tasks assigned to it. Two areas requiring further attention are the communication of information and the development of an information data bank.

Clients need to be fully informed

2.32 In 1992, the OFES distributed to its client list of 25 departments and 78 agencies a basic package including a copy of the Code, instructions and a template for preparing action plans, and an explanation of the role of OFES and expectations for communication. The same package was sent to all clients regardless of their size, their activities or the environmental impact of their operations. The Office of Federal Environmental Stewardship designed the package to be flexible in its use. Departments and agencies were expected to adapt it and modify it to meet their specific needs. However, the OFES did not follow up with all of its clients directly to see if this had indeed been done and to offer any assistance if it had not.

2.33 The OFES files show that, following the initial contact, information was communicated through a network of representatives from departments and

agencies, and through workshops, training sessions, newsletters and several electronic media including "Environet", "Ecofax" and most recently the "Green Lane" on Internet. Regardless of these efforts, sufficient information has not been received by all clients, according to the responses by departments and agencies to the questionnaire (see Exhibit 2.2). In our opinion, better management of information will be needed to ensure that the greening process is fully implemented beyond the closure of the OFES on 31 March 1997.

A project and information data bank is needed for facilitation and reporting

2.34 We examined the Office of Federal Environmental Stewardship's files to determine the nature and extent of the current information available to it. We found a great deal of information including client lists and correspondence, a variety of tools for developing and implementing action plans, communications networks, and details on demonstration projects. However, we found that there is no master list of eligible entities and no evidence that clients had been classified by their specific information needs. Files were incomplete and out-of-date. This makes it difficult to focus effort on departments and agencies that require special attention. Furthermore, the opportunity has not been taken to collect such information for a government-wide stewardship data bank for use in future decision making. In this context, we view the greening data bank as constituting a collection of databases distributed throughout government departments and agencies, including Environment Canada. Environment Canada would be the focus for requests for greening information in that it would have a knowledge of and access to the government's greening databases.

2.35 Government's stated intention in 1991 was to establish and maintain a project and information data bank. In our opinion, knowledge of the size and budget of each entity, the environmental impact of its operations and up-to-date

information on its greening activities is necessary information to monitor overall progress and facilitate analysis and reporting on the initiative government-wide.

Exhibit 2.2

Sample of Survey Responses

Responses Relating To Information Management And Co-ordination
"The department would benefit from information from similar-sized departments and, in particular, from some direction being given to departments in leased facilities."
"To have more communication between the Office of Federal Environmental Stewardship (OFES), other departments. More workshops, guidance."
"The most useful function the OFES could serve is as a "window" into Environment Canada. Having one office serving as a primary point of contact to identify appropriate officials where technical advice is available, or for sorting out conflicting advice, would be extremely helpful."
"The co-ordination of partnership efforts, which allows the sharing of expertise and experience with other government departments, will continue to be essential."
"Better contact, better communications; information may have been distributed before to the chairman or to the secretary general but it never got to our directorate."
"The OFES should organize an interdepartmental panel to increase awareness with respect to the type of environmental issues addressed in the various departments."
"Possibly co-ordinate workshops involving other departments."
"The first thing that we would require is to receive all the documentation that has been published so far."
Specific Instructions And Guidance Requested For Strategy Preparation
"Further guidance is needed on: 1) Where environmental stewardship fits as an element of sustainable development and 2) What other elements make up sustainable development."
"We would appreciate receiving samples of other departments' reports, plans, etc. Also guidelines on how to go ahead with environmental management systems, sustainable development strategy, etc."
"A government-wide initiative to integrate and recommend a structure to help departments respond to the various judicial and political requirements under the Code, the Guide and the Labour Code."
"Guidelines for development of strategies and action plans."
"More details on content of sustainable development strategy. Outline of what small departments who do not own any property are expected to do."
"It is crucial that central or common service agencies that are mandated to procure goods and to administer buildings undertake the responsibility to assist client departments in complying with the aforementioned requirements."

Reporting on the Stewardship Initiative Is Incomplete

2.36 Reporting is an important part of accountability, and is the vehicle for presenting the results that have been achieved. While ministers are individually responsible for reporting results of greening activities within their own departments and agencies, the Office of Federal Environmental Stewardship is responsible for providing an annual aggregate report. In our view, such a report should review both successes and failures of departments and agencies. The OFES informs us that information was gathered on unsuccessful approaches and was used to develop new tools. However, such information was not included in the *Federal Environmental Stewardship Annual Report 1992–1993*, or the *Greening Government Progress Report* (1995).

Reporting of progress was not objective

2.37 The 1992–93 report thus does not constitute an objective status report. Furthermore, it is of limited use to decision makers who provide direction on the appropriate use of resources and on any changes needed to ensure that the stewardship initiative is focussed, on schedule, and moving toward the goal of sustainable development.

2.38 The report contains no reference to the number of action plans received by the Office of Federal Environmental Stewardship compared with its original contact list, nor does it contain any analysis of the contents of those action plans. Instead it reports only success stories from departments, agencies and Crown corporations and makes broad statements on the basis of limited

information. This raises questions about its usefulness to clients as a yardstick with which to measure their own progress. Also open to question is its usefulness to Environment Canada's senior management as a briefing document; to ministers as a basis for future decisions; and to the public as an accountability document.

2.39 The *Greening Government Progress Report* (1995) is available to the public via the "Green Lane" on Internet. It essentially follows the same format as the 1992–93 report; however, none of the limitations noted above are addressed.

The OAG survey provided an update on client progress

2.40 The responses to the OAG survey questionnaire provided an update on client progress, especially in the agencies on which the OFES had little information. Environment Canada itself states in the *Federal Environmental Stewardship Annual Report 1992–1993*, "Smaller federal organizations may not always be mentioned, but taken together their activities also have a significant impact." Yet of the 42 agencies returning questionnaires, 30 indicated that the OFES did not maintain contact with them or provide documentation specific to their needs on preparing action plans and reporting results. In many instances they had taken action on green office practices, which lends credence to the OFES statements in the *Federal Environmental Stewardship Annual Report 1992–1993*. However, this information was not on file at the OFES. Our survey results indicated that 17 of the 19 departments that responded to the questionnaire have maintained contact with the OFES since the Code was introduced.

The annual report contains only success stories.

Taken together, smaller federal organizations also have a significant impact.

There Is Now a “Two-Track” Approach to the Greening Process

2.41 With the introduction of the *Guide to Green Government* in May 1995, the government has moved further toward its goal of sustainable development. In so doing, it has in effect created a two-track approach to environmental stewardship.

2.42 Under the amendments to the *Auditor General Act* passed in December 1995, ministers are required within the next two years to prepare sustainable development strategies for their departments and plans to implement them. While these will replace action plans prepared under the Code, departments could use those plans to assist them in developing their strategies. The *Guide to Green Government* requires that departments report annually on their progress in their Part III of the Estimates. Those agencies not covered by the amendments to the *Auditor General Act* will continue to prepare and update action plans under the Code of Environmental Stewardship.

2.43 The focus is primarily on departments, since only three agencies have been included under the amended *Auditor General Act* to date. However, it should be noted that the Act empowers ministers to recommend to the Governor in Council other entities under their authority that should be covered under the Act. Under this provision, selected agencies could therefore be required to prepare sustainable development strategies in the future.

Departments are now applying the *Guide to Green Government*

2.44 Given the high priority that ministers have placed on activities

covered by the Guide, a series of workshops has been conducted across the country to bring together federal representatives from key departments and agencies, including this Office, to discuss their roles and obligations under the government's greening process, as well as the role of the new Commissioner of the Environment and Sustainable Development.

2.45 The responses to our survey questionnaire, and information obtained at the workshops mentioned above, have shown a significant need for specific guidance to all departments and agencies on how to carry out their greening activities. Communications seemed to be a major problem given that 7 departments (36.8 percent) and 33 agencies (78.5 percent) responding to our questionnaire indicated that they had not distributed the Guide within their organizations.

2.46 As the responses to our questionnaire show (see Exhibit 2.2), the preparation of sustainable development strategies will require that more specific instructions and advice be provided to departments to enable them to meet the December 1997 deadline, while not neglecting the needs of the agencies that will continue to operate under the Code.

Co-ordination mechanisms are being used

2.47 The Environmental Accountability Partnership, established in 1992, is continuing to provide leadership, information and advice to departments and agencies, with a goal of improving existing co-ordination and alliances among them. However, the results of our survey questionnaire indicated that active participation in the partnership is limited to eight departments and only two agencies.

Departments will require more specific instructions and advice.

The Environmental Accountability Partnership is continuing to provide leadership.

It is a good time to review progress.

2.48 Recent developments indicate that Environment Canada is considering the involvement of the Sustainable Development Co-ordinating Committee and the Interdepartmental Network on Sustainable Development Strategies, both of which are chaired by Environment Canada, to provide strategic policy direction to departments and ensure co-ordination in the preparation of their sustainable development strategies.

Departments' development of environmental management systems is under way

2.49 No department responding to our survey has fully implemented an environmental management system (EMS). However, there is evidence that departments are taking action and giving increased attention to environmental management. For example, several "hands-on" workshops organized by the Office of Federal Environmental Stewardship have been held using the EMS Self-Assessment Guide developed with the input of the Office of the Auditor General.

Lessons Learned and Recommendations

2.50 The stewardship initiative under the Code of Environmental Stewardship is alive but needs attention. That it is producing results is substantiated by information in the annual reports and by the responses to our questionnaire. However, not all areas are being addressed fully, as noted earlier in this chapter.

2.51 Since 1990, departments and agencies have acquired much experience with the difficulties of applying environmental stewardship to their operations and day-to-day activities. As the greening process has now reached the

stage where departments will be required to produce sustainable development strategies for presentation to the House of Commons and public review, it is a good time to review progress to date, and to make any necessary changes to keep the greening process on schedule and on target. Such an assessment will help maintain its momentum and focus.

2.52 Overall, our audit has identified several steps that can be taken now to improve the implementation of environmental stewardship in departments and agencies. While we recognize that department and agencies are now undergoing significant change, we believe that improvements can be made without major adjustments to the framework currently in place, and within the established schedule.

Successful Application of the Strategic Framework

2.53 In 1991 a sound strategic framework for implementing the Code as part of the stewardship initiative was put in place, including assignment of responsibilities to key players. However, in the absence of legislation enforcing accountability and assigning specific responsibilities for outputs, the strategic framework was open to interpretation. Although the amendments to the *Auditor General Act* have gone a long way to address this deficiency, there remain areas for further review.

Strong leadership is the key to success

2.54 In our opinion, there is a need for continuing leadership in the greening process both government-wide and within individual departments and agencies. Somebody needs to accept full responsibility for the overall implementation of the greening process. Such a leader would be aware of

day-to-day developments, be in a position to provide timely advice to decision makers and be able to report comprehensively and objectively on the status of the initiative government-wide in conjunction with the responsibilities of the new Commissioner of the Environment and Sustainable Development.

2.55 In departments and agencies, leadership is equally important. In fact, we found a strong correlation between the quality of action plans and senior management's direct involvement and commitment to the establishment and operation of an environmental management function within the organization.

The Code still applies to most agencies

2.56 With the introduction of the *Guide to Green Government* in May 1995, together with the amendments to the *Auditor General Act*, the government has moved the greening process forward. However, as we have noted earlier, this new regime applies only to departments and to selected agencies. Other agencies will therefore continue to operate under the Code of Environmental Stewardship. Co-ordination of these activities will become increasingly important when the OFES terminates its activities on 31 March 1997. Crown corporations remain formally excluded from the greening process.

2.57 Environment Canada, working with other departments and agencies, should clarify those greening activities to be carried out under the amendments to the *Auditor General Act* and those to be carried out under the Code of Environmental Stewardship.

Department's response: Agree. Environment Canada in co-operation with Treasury Board Secretariat, through the Environmental Accountability Partnership

and other related working groups, will continue to provide leadership on the greening process, and, in particular, the requirements for the Auditor General Act and the Code of Environmental Stewardship.

It is the Department's position, however, that the Code is a voluntary program because of the lack of a legislative framework. The AG Act now lays out such a framework for promoting departmental accountability and assigning specific responsibilities for departments and selected agencies over time. Consideration should be given to extending the mandate of the Commissioner to include other agencies. There is also a need to determine to what extent Crown corporations can participate in the greening process.

Clients Need to Be Fully Informed and Involved at All Times

2.58 In our opinion, it is the role of a facilitator to provide good information and to establish ongoing dialogue to resolve problems and ensure that the greening process keeps moving forward. This benefits both parties, in that the clients are involved and up-to-date and the facilitator has the information it needs to fulfill its reporting function. In addition to the facilitator, departments and agencies need to establish such relationships within their own organizations if employees are to support and contribute to the greening process.

2.59 Environment Canada should, in co-operation with departments and agencies, ascertain their information needs and take action to address them.

Department's response: Agree. Environment Canada will continue to provide leadership, information and advice to departments and agencies through the Environmental Accountability Partnership. We agree with the Auditor General that this partnership will continue

Somebody needs to accept full responsibility for the greening process.

Crown corporations remain formally excluded from the process.

to play an important role in facilitating the greening process.

2.60 Senior management of departments and agencies should ensure that greening information is available to all employees and is used at the appropriate levels within their organizations.

Department's response: Agree. Environment Canada has, within the Department, established an active stewardship network of employees working toward the development of our departmental environmental management system. This approach has been shared with other departments through the Environmental Accountability Partnership.

A Project and Information Data Bank Underpins the Process

2.61 The government's stated intention in 1991 to establish and maintain a project and information data bank for the successful implementation of the stewardship initiative is still valid. As noted earlier, the Office of Federal Environmental Stewardship has at its disposal information that could be used to develop such a data bank. While we acknowledge that a data bank would not necessarily be developed and maintained by Environment Canada, as the facilitating department it should be aware of the existence of greening information in other entities and have immediate access to it. The areas to be addressed include the organization of greening information, the location of and access to information held by participants, and the provision of ready access to the data bank by all interested parties.

2.62 Environment Canada should address the need for a government-wide greening data bank by placing the subject on the agenda of the Sustainable

Development Co-ordinating Committee for early discussion.

Department's response: Agree. The role of the Commissioner will include monitoring and reporting to the House of Commons. This monitoring and reporting function will likely require the Commissioner to develop a data bank of information so as to, at a minimum, track the progress of departments. We agree to the statement of paragraph 2.65 that a number of greening issues will require further discussion involving the new Commissioner of the Environment and Sustainable Development. We believe the data bank should be among the issues for discussion. To ensure the most appropriate and efficient use, it is important to determine which party will be in the best position to develop and maintain the data bank.

Environment Canada, through its input into the "Green Lane" INTERNET home page, has gathered together and made available to the public and other government departments and agencies a great deal of information on greening in general and on Environment Canada programs.

Aggregate Reporting Needs to Be Objective and Comprehensive

2.63 In view of the impact of the greening process on federal operations across government and its current position on the government's agenda, there is a need to provide advice to Environment Canada's senior management, the Minister and other government departments on the implications of the greening process. In 1991 the aggregate report was seen to be the vehicle for such communication. In our opinion, there is still a need for such reporting. At this point a comprehensive status report on the greening process to date would be a useful base from which to proceed. Even with the new requirement for departments to table sustainable development strategies in the House of

There is a still a need for aggregate reporting.

Commons and to report progress in their Part III of the Estimates, there is no provision for aggregate reporting on the status of the overall greening process.

Co-ordination Mechanisms Are Essential

2.64 We support the efforts of the Sustainable Development Co-ordinating Committee and the Environmental

Accountability Partnership, as key bodies providing leadership, information and advice to departments and agencies.

2.65 This chapter raises a number of greening issues that will require further discussion both within the federal government and between the government and the new Commissioner of the Environment and Sustainable Development.



About the Audit

Our audit examined the stewardship initiative and its outputs through which the federal government is greening its policies and its day-to-day operations. In previous work, we have looked at specific programs and projects to measure the government's performance against the environmental pledges in the Green Plan and its commitment "to lead by doing". For example, we audited the implementation of the *Canadian Environmental Protection Act* (1991), and the application of the *Environmental Assessment and Review Process Guidelines Order* (1984) to energy megaprojects (1992) and to the Northumberland Strait Crossing Project (1995). We have also audited the control and clean-up of freshwater pollution in the Great Lakes (1991) and the St. Lawrence and Fraser Rivers (1993), and the management of hazardous wastes (1995). All of these audits demonstrated elements of positive progress. Our study on Environmental Management Systems (1995) resulted in the publication by Environment Canada of a self-assessment guide to assist departments in developing and implementing such systems.

Objective

Our objective was to document lessons learned from the results of the application of the Code of Environmental Stewardship by federal departments and agencies to their operations under the guidance of Environment Canada's Office of Federal Environmental Stewardship (OFES) (1992 to 1995), thereby to provide guidance to government as it delivers on its commitment to integrate sustainable development into its operations "right across the board," as stated in its recently released *A Guide to Green Government (1995)*. The audit will also provide important baseline information for the Office of the Auditor General and the new Commissioner of the Environment and Sustainable Development for future audit work.

Criteria

We expected that Environment Canada and all departments and agencies would each have clearly defined responsibility and accountability for implementing the Code of Environmental Stewardship and for preparing sustainable development strategies. We expected that Environment Canada would have an overall strategic plan and a structured approach for providing support to its clients that incorporated the activities of the Office of Federal Environmental Stewardship (OFES), named as the "facilitator" of the Code. We expected that departments and agencies would have developed environmental action plans and strategies, and would have implemented them, audited them and reported the results to meet the requirements of the Code. Finally, we expected to find that a strategic plan would address the transition to sustainable development strategies and the co-ordination of the stewardship initiative following the closing of the OFES on 31 March 1997.

Scope

The audit examined three aspects of the stewardship initiative: Environment Canada's facilitating role, responsibilities and accountability (including its Office of Federal Environmental Stewardship) for implementing, monitoring and reporting on the initiative; the departmental and agency response to the requirements of the Code; and the government's plans for ensuring that progress toward sustainable development continues.

Approach

Our audit focussed on the way the Code of Environmental Stewardship has been applied from its introduction in 1992 to the completion of the audit on 31 December 1995. We also reviewed *A Guide to Green Government* and the directives on greening government operations, including the amendments to the *Auditor General Act*.

The work involved reviewing files, reports and other documentation, and interviews with key Environment Canada personnel involved in the stewardship initiative. We analyzed the content of action plans collected by the Office of Federal Environmental Stewardship against evaluation criteria we had developed using a framework closely modelled on Environment Canada's draft document, *The Evaluation of Environmental Action Plans* (1995). The Department had used that document to review its own action plans for headquarters and regional offices.

To supplement and update information on the application of the Code, we surveyed departments and agencies using a questionnaire we had developed and piloted in three major departments. We contacted 19 departments and 61 agencies. In reporting on the stewardship initiative, we used two sets of data. First, data were retrieved from the OFES files containing information received from departments and agencies originally contacted by the OFES in 1992 (reflecting the government structure of the day). Data obtained through our survey questionnaire distributed in October 1995, however, reflect the current government structure. The reader of this report should be aware of these differences; for example, since 1992 the number of departments has been reduced from 25 to 19.

Although contacted in 1992 by the OFES, Crown corporations are not covered under the Code or under the recent amendments to the *Auditor General Act*. Consequently, we chose not to include them in our survey population, which was based on the definition of "departments" under Schedule I, I.1 and II of the *Financial Administration Act*, updated to reflect current government organization. For the sake of clarity we refer to "departments" as those listed under Schedule I and "agencies" as those listed under Schedules I.1 and II.

We analyzed but did not audit the information contained in responses to our survey questionnaire. Documentation provided to us to support the responses will be used in future audit work.

Audit Team

John Affleck
Mike Brosseau
Sassan Ghassabeh
Geoffrey Robins

For information, please contact Wayne Cluskey, the responsible auditor.

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Report of the Auditor General of Canada to the House of Commons

Chapter 3 Evaluation in the Federal Government

May 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 3
Evaluation in the Federal Government



May 1996

This May 1996 Report comprises 12 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 3

Evaluation in the Federal Government

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Evaluation in the Federal Government

Assistant Auditor General: Maria Barrados

Responsible Auditor: Stan Divorski

Main Points

3.1 Government has recognized the need for better information on program results to support decisions and to improve the way government works. Information on the “bottom line” of government programs requires disciplined measurement and analysis of program effectiveness. The need for studies of program effectiveness — commonly referred to as evaluations — is growing as a result of scrutiny being given to government programs.

3.2 A changed environment has created challenges for planning and conducting evaluations. A new Treasury Board review policy recognizes the responsibility of program managers for measuring program performance. The policy also recognizes that effectiveness measurement and analysis can come from a variety of studies, but does not make clear the standards that apply when such measurement and analysis is conducted as part of reviews other than evaluations.

3.3 The choice of evaluation topics in departments reflects decisions based largely on departmental interests and priorities. Evaluations continue to emphasize the needs of departmental managers — focussing on smaller program components and operational matters. These studies can provide valuable support to management. Good government also requires overall program effectiveness information for government decision making and broader accountability. This is not consistently provided. Departments have shown that they can respond to demands for information on the accomplishments of key programs. For example, we found they have made progress in assessing the effectiveness of programs that spend more than \$1 billion annually.

3.4 Departments, with the exception of some smaller ones, have maintained their levels of financial support for evaluation; however, certain key aspects of the management of evaluation in departments have not improved. The scope and quality of evaluations remain matters for concern.

3.5 Government has introduced measures with the potential to improve its planning of evaluation and to support continued progress in evaluating key programs. A renewed expenditure management system requires departments to submit business plans with priorities for reviews of their programs, including evaluations and internal audits. This approach has the potential to link departmental evaluation plans to the budgeting process. In the first year, about two thirds of the plans identified review priorities. However, the system is in the early stages of development. The government still needs to ensure that individual departments’ evaluation priorities reflect government’s evaluation priorities. In order to accomplish this, the government needs to state its evaluation priorities systematically, identify gaps in review activity and ensure that those gaps are filled.

3.6 The President of Treasury Board has submitted to Parliament a report on the performance of government review that is a promising first step. Future reports need to use more concrete measures and provide a more adequate picture of overall government success in measuring and analyzing the effectiveness of programs.

Introduction

3.7 What ministers, Parliament and the public want to know about any government program is what it has cost and what results it has achieved. Results information can take many forms. For example, it may comprise: counts of the outputs — the numbers of products or services delivered by a program; measures of the various dimensions of outputs, such as their timeliness and client satisfaction with them; or measures of the program's outcomes — the impacts or effects of the program on target groups or on Canadians in general. It is in the measurement of outcomes that evaluation has a unique contribution to make.

3.8 Various social and economic indicators are available (for example, unemployment rates, crime rates, average incomes) to measure success in dealing with the problems facing Canada. However, establishing the contributions of specific programs to changes in these indicators is difficult. Assessing what a program has accomplished in improving the circumstances of Canadians requires separate analytic studies. These studies, commonly referred to as evaluations, involve the measurement and analysis of a program's effectiveness — the extent to which it has achieved its objectives. They seek to identify the actual contribution made by a program. Thus they are an essential source of the information required for decision making and government management, with the potential to:

- provide information to support decisions about resource allocation;
- help Canadians determine the value obtained with their tax dollars; and

- help public servants manage for results and take responsibility for them.

3.9 Evaluations can provide the type of “bottom line” information that is needed for government programs. For example, as reported in Chapter 6 of our May 1995 Report, a study of the Atlantic Region Freight Assistance Program, initiated by the Policy and Co-ordination Group within Transport Canada, found that: the subsidy had become less important in stimulating regional economic growth because costs had continued to decline; Atlantic producers were depending less on markets in central Canada; producers in eastern Quebec accounted for a large and growing share of the subsidy payments made to move goods west by truck; and the raw-material producing sector represented a rather minor part of the overall Atlantic economy. In short, the study showed that this subsidy program had outlived its usefulness.

3.10 The study presented a clearer picture of the program's contribution than could have been obtained from analyzing benefits paid to recipients or any single indicator of the health of the Atlantic economy. The report was widely distributed among the public and to members of Parliament. In the 1995 Budget, the government announced its intention to terminate the program on 1 July 1995.

3.11 An evaluation of parts of the training program at Human Resources Development Canada is another example where valuable information was produced. It found that training that is well geared to helping workers acquire occupational skills in demand in the economy produces striking benefits, including improved

Evaluations can provide the type of “bottom line” information that is needed for government programs.

economic growth and competitiveness for Canada.

Growing need to know if programs are effective

3.12 In 1993, we published three chapters on program evaluation. We identified interest on the part of Cabinet and parliamentary committees for evaluation. However, we concluded that the system for evaluation was not meeting its potential. Following its hearings on our audit, the House of Commons Standing Committee on Public Accounts reaffirmed its interest in program evaluation and its belief in the potential benefits that can follow from it.

3.13 Over the last two years, fiscal pressures have led the government to reconsider many of its programs and to recognize the need for better information to support decisions. In its response to the report of the Public Accounts Committee, the government expressed a commitment to manage for results and to measure results. In his November 1995 report to Parliament, *Strengthening Government Review*, the President of the Treasury Board confirmed:

We cannot improve the way government works unless we have a good idea of how well it is performing now. Knowing what works and what does not requires credible information on performance.

New developments in evaluation since our 1993 audit

3.14 Evaluations require specialized expertise. In many government departments and agencies these studies are carried out by program evaluators situated in units created for this purpose. Studies of effectiveness can also be carried out by policy analysts and program managers elsewhere in departments.

3.15 At the time of our 1993 audit, program evaluation was the key tool for the government to examine whether its initiatives were succeeding and should be continued or whether there were more cost-effective alternatives. Accordingly, that audit focussed on program evaluation, examining how 42 program evaluation units in departments across government functioned and what they produced, as well as the related activities of the Evaluation and Audit Branch of the Office of the Comptroller General of Canada. We recommended improvements to departmental management of evaluation and increased leadership by the Treasury Board Secretariat and the Office of the Comptroller General.

3.16 Since 1993, a number of events have affected the conduct of evaluations in the government. These have shaped our approach to this follow-up audit. Major changes have been made to the structure of many departments. They have lost, gained or redesigned programs or been recombined into new departments. The restructuring and downsizing that is occurring frequently involves changes to the structure for evaluation. How evaluations are to be conducted in this environment presents a challenge for many departments.

3.17 Changes have also occurred in the central government structure and responsibilities for evaluation. The Office of the Comptroller General was integrated into the Treasury Board Secretariat, and the functions of the Evaluation and Audit Branch were assumed by the Government Review and Quality Services Sector of the Secretariat. In May 1994, the Treasury Board approved a new review policy as well as revised internal audit and evaluation policies. The review policy establishes the general requirements for all types of reviews, including evaluations

and internal audits. In particular, it gives greater recognition to the responsibility of the program manager for measuring program performance. The evaluation policy sets the specific requirements for evaluation.

3.18 The government announced in the 1994 Budget its intention to conduct a comprehensive review of all federal expenditure programs — the 1994 Program Review. Key decisions following this review were announced in the February 1995 Budget. In addition to the Program Review, the 1994 Budget also announced that 15 policy reviews would be undertaken. These reviews were to be extensive consultations on a wide range of policies and programs with a view to improving both economic and fiscal performance and government efficiency.

3.19 The Public Accounts Committee considered our 1993 chapters on program evaluation at public hearings in June and October 1994. In November 1994, the Committee reported its conclusions in its Sixth Report. Overall, its recommendations encouraged stronger leadership by the Treasury Board Secretariat (a summary of its

recommendations pertaining to the Treasury Board Secretariat is included in Exhibit 3.1). The report also asked this Office to examine and report no later than the spring of 1996 on the extent to which the Treasury Board Secretariat has complied with the Committee's recommendations and lived up to commitments made during the hearings.

3.20 In April 1995 the President of the Treasury Board responded to the Sixth Report of the Public Accounts Committee (a summary is provided in Exhibit 3.2). In its response, the government provided clarifications or alternative approaches to dealing with most of the recommendations. In November 1995, in response to the Public Accounts Committee's sixth recommendation (Exhibit 3.1), the government released *Strengthening Government Review: Annual Report to Parliament by the President of the Treasury Board* (the President's Report).

3.21 In February 1995 the government announced a renewed expenditure management system that would require departments to submit business plans to implement changes announced in the Budget. Among other things, these business plans were to provide review

The Public Accounts Committee encouraged stronger leadership by the Treasury Board Secretariat.

1. Define in detail the approval process for evaluation plans, spelling out the role and responsibilities of each of the parties involved.
2. Define criteria for determining when evaluations will come under the Secretariat's control.
3. Consider additional funding where technical or other difficulties prevent evaluations from being carried out within reasonable deadlines.
4. Provide the committee with a semi-annual progress report on the activities of the Government Review and Quality Services Division.
5. Submit a government-wide evaluation plan to the Committee by October, 1995 and every year afterward.
6. Produce an annual report on departmental evaluation performance, starting on 31 October 1995.
7. Require an evaluation plan whenever a new program is approved by Treasury Board.

Exhibit 3.1

Summary of Recommendations to Treasury Board Secretariat by the Public Accounts Committee

Source: Sixth Report of the Standing Committee on Public Accounts, 30 November 1994

priorities, including priorities for internal audit and evaluation, and to make collecting information on program performance part of departmental planning.

3.22 The 1995 Budget Plan also announced a number of measures that increase the involvement of other parties in the delivery of federal programs. These measures complicate the identification of roles, responsibilities and accountabilities for evaluation.

Audit scope and objectives

3.23 Our audit examined measurement and analysis of effectiveness in the federal government. More specifically, we examined the planning, management and reporting of evaluations. Evaluations included in the audit were identified by heads of review in 39 departments and agencies as meeting the requirement of disciplined measurement and analysis of the effectiveness of programs. These evaluations were conducted either within or outside of departmental evaluation units. We examined the business plans for the 39 departments and agencies. We also examined the related activities in the

Government Review and Quality Services Sector at the Treasury Board Secretariat.

3.24 Our audit objectives were:

- to describe the new framework for evaluation in government and the changes to the structure in place to conduct evaluations in departments, and to determine the extent to which these changes respond to our observations and recommendations of 1993; and
- to assess the government's progress in responding to our 1993 chapters on program evaluation and to the recommendations of the Public Accounts Committee.

3.25 Further details about the audit are presented at the end of the chapter.

Observations and Recommendations

Some Progress in Evaluation — 1992-93 to 1994-95

Various types of studies address effectiveness

3.26 Effectiveness measurement and analysis may be part of different types of

Exhibit 3.2

Summary of Government Response to the Recommendations of the Public Accounts Committee

Source: Summary of Government Response to the Public Accounts Committee, provided by Treasury Board Secretariat

1. Priorities for review will be examined as part of the annual business planning process by the Treasury Board Secretariat.
2. Where Treasury Board initiates reviews, as part of its review of departmental business plans or otherwise, it will specify responsibility for their conduct. Typically, Treasury Board Secretariat would play a lead role on interdepartmental reviews, where issues have government-wide implications, or management issues of particularly high risk.
3. Agreed
4. Agreed
5. The government will provide a consolidation of planned and completed key strategic reviews as part of an Annual Report of the President of the Treasury Board each fall. Where gaps are noted, the Treasury Board will intervene.
6. The status of departmental review in terms of the government expectations will be included in the President's Report on Review.
7. The Treasury Board Secretariat will continue to examine all submissions for new programs to ensure that these include statements of objectives and commitments to measure performance.

studies, including: evaluations conducted by evaluation or review units in accordance with Treasury Board policies and standards; reviews led or mandated by senior management or by program managers; analysis of information from the ongoing monitoring of programs or operations; and reviews conducted by or at the request of central agencies.

3.27 Evaluations may deal with questions about the overall effectiveness of programs and policies (program effectiveness) or about the effectiveness of specific operations or management systems (operational effectiveness). Studies that examine operational effectiveness are an important element of good management. Studies on overall program effectiveness are essential in assessing the achievements — or the “bottom line” — of government programs.

3.28 In the following paragraphs, we examine the evaluations produced in departments and, particularly, the balance that these strike between measuring program effectiveness and operational effectiveness. We also examine the degree to which two sets of reviews, the 1994 government-wide Program Review and the policy reviews announced in the 1994 Budget, involved measurement and analysis of the effectiveness of key government programs. The government identified these reviews as having assessed critical questions about key programs.

3.29 Priorities for evaluation are selected from among the large number of programs and policies. Programs may be the subject of evaluation for many reasons, including, for example, because of the resources they expend, because of their potential impact on the Canadian public or economy or because they represent significant aspects of the management of government. One set of

programs that could be considered a priority would be those with annual expenditures of over \$1 billion. In the last part of this section, we examine the extent of evaluation of these major programs.

Evaluations emphasize the needs of departmental managers

3.30 With some exceptions, such as the large studies described in Exhibit 3.6, evaluations in departments and agencies generally focus on program components and issues that matter more to departmental managers than to Parliament, the government or the public. In 1993 we observed instances where evaluations had contributed to the modification of government programs or to reforms that resulted in savings. However, evaluations do not always provide needed information on matters of broad government policy and broad expenditure allocation and are not always useful for accountability to Parliament. Thus they have served one of their purposes — improvement of operations — more than others — accountability and support for budget allocation decisions.

3.31 In four departments, we examined all evaluations identified by review heads and completed between 1 April 1992 and 31 March 1995. The value of the program components covered by these studies ranged from four percent of 1994–95 expenditures in one department to nearly 60 percent in another (see Exhibit 3.3).

3.32 As in 1993, evaluations continue to focus on smaller parts of government activities or programs. Government programs are organized into activities and sub-activities for reporting in the Estimates submitted to Parliament and in the accompanying Part IIIs. The smallest unit reported is typically the sub-activity. In 1993 we reported that three quarters of evaluations looked at program

Evaluations in departments and agencies generally focus on program components and issues that matter more to departmental managers than to Parliament, the government or the public.

components much smaller than the sub-activity. In the four departments we examined this time, again three quarters of the studies looked at program components much smaller than the sub-activity.

3.33 Operational matters continue to be a major focus of most evaluations. In 1993 we reported that more than three quarters of evaluations addressed operational issues as part of the evaluation. In the current audit, between 62 percent and 100 percent of the studies we examined in the four selected departments addressed operational issues as part of the evaluation (Exhibit 3.4).

3.34 What expenditures and issues each department decides to evaluate is influenced by a number of factors, both internal and external. In the case of Transport Canada, there were demands to review significant activities, and many of the evaluations that were undertaken related to strategic questions such as

whether programs were still relevant and whether better alternatives existed.

3.35 The Royal Canadian Mounted Police has embarked upon a process of organizational renewal. Its evaluations have emphasized operational issues. A significant proportion of evaluations include achievement of objectives or identification of alternatives for a variety of management, operational or support functions. For example, an evaluation of the staffing component assessed whether specific elements of the staffing process meet the objectives and needs of the Force, as well as the cost effectiveness of specific components of the function.

3.36 Revenue Canada is responsible for administering legislative programs related to revenue collection, border protection, trade administration and income redistribution, for which policy responsibilities rest for the most part with other government departments. Consequently, its evaluations address its responsibilities for administering these programs and the degree to which administration of them contributes to the attainment of policy objectives. Revenue Canada's approach to program evaluation is to focus on areas of high risk with significant strategic value. The Department advises us that this is done to provide managers with effectiveness information to support decision making related to the management of change. As a result, most studies addressed operational effectiveness. Some also examined the success of pilot projects or of smaller but key components, such as the use of dogs to detect illegal drugs. Subsequently, the results of such evaluations might be included in more comprehensive studies of the Department's operations. For example, the evaluation of detector dogs was used in the overall assessment of the

Exhibit 3.3

Proportion of Departmental Activities Examined for Effectiveness between 1992-93 and 1994-95

Department	Proportion of 1994-95 Expenditures
Transport Canada	59.2%
Royal Canadian Mounted Police ¹	35.1%
Revenue Canada	13.7%
Health Canada ²	4.0%

1. One key recent review looked at community policing, which has few resources attached to it, but which has implications for large activities such as the \$786.7 million Contract Policing Program.
2. The Health Insurance Activity, which represented 83 percent of the Department's 1994-95 expenditures, was not subject to effectiveness measurement and analysis during the three-year period audited, although an evaluation of the Department's monitoring of Health Insurance was under way. Calculation of coverage is complicated for Health Canada because of the restructuring of the Department — the Welfare component was transferred to Human Resources Development Canada during 1993-94. If the calculation is based on 1993-94 expenditures, coverage becomes 61.9 percent, as evaluations of two large programs — Canada Pension Plan Retirement Benefits and Old Age Security — were completed.

Department's border protection role in the Canada Drug Strategy.

3.37 At times, areas chosen for evaluation are influenced by external demands. For example, Health Canada conducted some evaluations as required by legislation or Treasury Board decisions. In general, Health Canada's evaluations focussed on smaller components of programs, such as the Department's responsibilities for co-ordinating multidepartmental initiatives. Although these co-ordination activities do not represent a large proportion of its expenditures, these evaluations can have important implications for the larger programs of which they are a part. The Department also completed an evaluation of Old Age Security and initiated an evaluation of Canada Pension Plan Retirement Benefits, two large programs that are now the responsibility of Human Resources Development Canada. It is currently examining its monitoring of a third large program — Health Insurance.

3.38 Although each department can offer a rationale for the focus and approach it takes to evaluations, the result overall is a focus on operational matters and attention to smaller program components. This information can provide valuable support to management. However, we continue to find weaknesses in the supply of information on the effectiveness of important programs. In value-for-money audits we have reported in the past two years, 12 expenditure programs did not have available information on effectiveness that we believed would be helpful to Parliament and the public. The expenditures of those programs totalled approximately \$5 billion per year. We also reported that such information was not available for two tax assistance initiatives totalling

approximately \$16 billion annually in revenue foregone and that evaluations were under way in both of these areas. The choices made in departments reflect largely departmental interests and priorities. They do not necessarily result in the information on overall program effectiveness that is needed to support accountability and government decision making.

The 1994 Program Review asked departments to examine the rationale for their programs

3.39 In the government's response to the Sixth Report of the Public Accounts Committee and in the President's Report, the government-wide Program Review announced in the 1994 Budget was identified as an examination of significant issues of a major portion of government expenditures. We examined the extent to which this Review had the potential to provide measurement and analysis of program effectiveness.

3.40 The purpose of the 1994 Program Review was to ensure that the government's diminished resources were directed to the highest-priority requirements and to those areas where the federal government was best placed to deliver services. Ministers were asked to

Exhibit 3.4

Proportion of Evaluations We Examined That Included Operational Effectiveness

Department	Proportion Including Operational Effectiveness¹
Transport Canada	62%
Royal Canadian Mounted Police	100%
Revenue Canada	90%
Health Canada	80%

¹ These studies may also have addressed other matters such as the success of the program component examined.

The 1994 Program Review asked questions that have received little attention in program evaluations.

review their own programs and activities using six tests:

- whether the public interest continued to be served;
- the necessity of government involvement;
- whether there was an appropriate role for the federal government;
- scope for partnerships;
- scope for increased efficiency; and
- affordability.

3.41 According to the Minister of Finance, the Program Review, which encompassed about \$52 billion worth of spending (excluding the major statutory transfers), would lead to program changes resulting in a \$3.9 billion cut in spending.

3.42 We compared the six tests used for the Program Review exercise with the key evaluation questions specified in the federal evaluation policy, to assess what the exercise could have added to our knowledge of program effectiveness. As shown in Exhibit 3.5, the tests related mostly to the evaluation questions of rationale for the program and the cost

effectiveness of alternative design and delivery approaches. Success in achieving objectives, a key element of program effectiveness, was not specifically a focus of the 1994 Program Review. We did not conduct detailed audit work in departments on the approaches taken to Program Review.

3.43 Our 1993 audit found that evaluations had paid little attention to whether government programs were still needed, or to the possibility of more cost-effective alternatives — issues that were the focus of the 1994 Program Review. Our examination of all evaluations produced over the intervening three years in four departments found that this was still true in most cases.

3.44 The 1994 Program Review potentially has made an important contribution in a large number of programs by asking questions that have received little attention in program evaluations. To the extent that Program Review did not measure success in meeting program objectives, this gap still needs to be dealt with.

Other reviews of key government policies did not always result in measurement and analysis of effectiveness

3.45 In its response to the request of the Public Accounts Committee for a three-year evaluation plan, the government pointed to a list of key policy reviews announced in the 1994 Budget as an indication of the government's priorities for review. These reviews were in addition to the government-wide Program Review discussed above. The President's Report also pointed to these 15 policy reviews as priority studies that are being pursued.

3.46 We assessed five of these policy reviews with objectives that made the

Exhibit 3.5

1994 Program Review Tests
Compared with Evaluation Questions

1994 Program Review Tests	Evaluation Questions
Public Interest* Role of Government Federalism Affordability *	Rationale or Relevance
	Success in Achieving Objectives
Public Interest* Partnership Efficiency Affordability*	Cost Effectiveness of Alternative Design and Delivery Approaches

* Falls within two evaluation questions

clearest reference to analysis of effectiveness. We examined available reports to determine the extent to which they measured effectiveness. The announced focus of the policy reviews was on consulting the Canadian population to define a vision for the future; the five reviews we examined relied extensively on consultation. Although the majority addressed effectiveness issues during the consultations, less than half included some measurement and analysis of effectiveness. We did not assess the completeness or quality of that analysis.

Progress has been made in evaluating programs over \$1 billion

3.47 There are a number of criteria that can be used to define evaluation priorities, including the potential impact on the Canadian public or economy or the level of expenditures. Programs that spend more than \$1 billion annually account for a large proportion of government expenditures. Measuring the effectiveness of these programs appears to us to be particularly important in view of the increased concern about the level of debt and deficit, and Parliament's expressed interest in having information on government programs to assist in the scrutiny of budgets.

3.48 In 1993 we reported that only two of the 16 programs over \$1 billion had been evaluated fully during the seven-year period ending in 1991–92, and that six had had sizeable evaluation coverage. The remaining eight programs had received limited or no evaluation coverage.

3.49 As part of the present audit, we examined the evaluations of the very large programs completed during the three-year period (1992–93 through 1994–95) following our 1993 audit. We did not examine the quality of these studies. We

distinguished between studies covering operations and studies addressing the overall effectiveness of the programs. We judged a program to have received sizeable coverage if a significant proportion of important program components had been covered (usually ranging from one third to one half or more of total program activities) and at least some questions on overall program impacts had been addressed. We judged that a program had received very limited or no coverage if less than 10 percent of overall program activities were covered.

3.50 The findings are presented in Exhibit 3.6. Where possible, we compared coverage during the period 1992–93 to 1994–95 with our previous estimates of coverage over the period 1985–86 to 1991–92. Because of changes to the structure of government programs, we were not able to make this comparison in all cases.

3.51 The period covered by our present audit was shorter than in 1993 (three years compared with seven years). We took this into consideration in our assessment of progress made. A longer time frame could produce an additional increase in coverage if departments maintain the existing momentum in program effectiveness measurement activity.

3.52 Exhibit 3.6 shows that five programs have received sizeable coverage in the three-year period to 1994–95. This is a significant improvement since 1993, when three of these had received only limited or no coverage in the previous seven years.

3.53 Exhibit 3.6 also shows that seven other programs received intermediate coverage: not negligible but not enough to be sizeable. We consider that this is a reasonable effort in a three-year period.

Exhibit 3.6

Studies Completed on Large Programs 1992-93 to 1994-95 ¹

Programs	Main Estimates 1994-95 (\$ billions)	Addressing Operations ²	Addressing Program Effectiveness		
			Sizeable ³ Coverage	Inter-mediate ³ Coverage	Very ³ Limited/No Coverage
- Management of Public Debt (Finance) ⁴	41.0	✓	✓		
- Income Security including Canada Pension Plan (Human Resources Development)	37.1	✓	✓		
- Unemployment Insurance (Human Resources Development)	17.1	✓	✓		
- Health Insurance (Health) ⁵ Cash	6.7				✓
Tax Points	8.4				
- Fiscal Transfer Payments – Equalization (Finance) ⁵	8.5				✓
- Social Development (Human Resources Development) ⁵	7.7				✓
- Education Support (Human Resources Development) ⁵ Cash	2.6				✓
Tax Points	4.1				
- Employment (Human Resources Development)	3.7	✓	✓		
- Air Forces (National Defence)	3.2	✓		✓	
- Land Forces (National Defence)	3.0	✓		✓	
- Indian and Inuit Affairs Program – Program Funding (Indian and Northern Affairs)	2.5	✓		✓	
- Maritime Forces (National Defence)	2.4	✓		✓	
- Realty Services (Public Works and Government Services) ⁶	1.8	✓			✓
- Transfer Payments to the Territorial Governments (Indian and Northern Affairs) ⁵	1.2				✓
- Pensions (Veterans Affairs)	1.2	✓	✓		
- Operations (Royal Canadian Mounted Police)	1.1	✓		✓	
- Office Facilities (Public Works and Government Services) ⁶	1.1	✓			✓
- Central and Common Services (Public Works and Government Services)	1.0	✓		✓	
- Materiel Support (National Defence)	1.0	✓		✓	

1. Large programs that had budgets of \$1 billion or more in 1994-95 and 1995-96. Our analysis took into consideration the fact that the period covered by our present audit was shorter than in 1993 (three years compared with seven). A longer time frame could produce additional increase in coverage.
2. Studies examined a variety of issues, including the operational effectiveness issues referred to elsewhere in this chapter.
3. (a) **Sizeable Coverage:** A significant proportion of important program components have been covered (usually ranging from one third to one half or more of total program activities) and at least some questions on overall program impacts have been addressed.
(b) **Intermediate Coverage:** Coverage is not insignificant but not sufficient to qualify as sizeable.
(c) **Very Limited/No Coverage:** Less than 10 percent coverage of overall program activities – overall program impacts have thus far undergone only very limited or no measurement.
4. The \$41 billion represents the interest cost of the public debt.
5. The Department of Finance advises us that, for the transfer payments, it did not carry out formal reviews under the Treasury Board review policy but conducted internal analysis and intensive discussion with the provinces.
6. The Department indicates that it established a task force on Real Property in 1994 with objectives to improve client services and devise a simpler, more affordable and manageable service delivery structure.

Note: The National Initiatives program at the Canadian International Development Agency has been subject to many evaluations at the sub-program level. This \$1.2 billion program has not been included in the exhibit because of the number and diversity of its components and because of ongoing phased follow-up work with the Office that involves self-assessment by CIDA. CIDA is also in the process of undertaking a series of important performance reviews of its programming priorities, which may provide an improved perspective on overall program impact.

3.54 It is important to keep in mind that effectiveness may not have been measured and analyzed for some important components of the programs with sizeable or intermediate coverage. Continuous attention is needed to ensure that the evaluation of all key components of these programs is given appropriate consideration.

3.55 Seven programs have received very limited or no coverage. Five of these are transfer payments to other governments. Most of the transfer payments had received limited or no coverage when we assessed them in 1993 and therefore have operated for a period of at least 10 years without formal evaluation. The Department of Finance advises us that, for the transfer payments, it did not carry out formal reviews under the Treasury Board review policy but conducted internal analyses and intensive discussion with the provinces. The Department also notes that these provided input to two successive legislative renewals of the Equalization program in 1992 and 1994, and to other major changes such as replacing a number of these programs with the new Canada Health and Social Transfer. It is important that ways be found to assess and report on the accomplishments of these programs.

3.56 Finally, we note that 75 percent of the programs had coverage of operations.

3.57 Overall, the current situation represents a substantial increase in evaluation coverage of this category of programs, and therefore of total government expenditures. Nonetheless, we have identified large programs that have been subject to little or no formal evaluation over the period audited, some of which have received little or no attention over the last 10 years. Continued

attention needs to be paid to programs with intermediate or sizeable coverage.

Need for Improvement in Systems and Procedures

3.58 In order to maintain the progress that has been made in evaluating government programs, adequate supporting systems and procedures are needed. We expected that the key elements of these systems and procedures would include:

- integration of evaluation into the mainstream of management practices, decision-making practices and the culture of departments and government as a whole;
- adequate planning to identify and address government priorities for the measurement and analysis of critical questions about the effectiveness of key programs;
- monitoring and reporting on evaluation;
- appropriate structures and management processes in departments; and
- establishment and monitoring of quality standards for evaluation.

Steps taken to integrate evaluation into the mainstream

3.59 Evaluation offers the potential to improve program operations, identify savings and support accountability. To meet this potential, evaluation needs to be an integral part of the management practices and culture of government.

3.60 In 1993 we observed that although some effort had been made to link evaluation to the government's planning and budget process, success was limited. There was a need to strengthen the link. Since then, the government has begun to renew its expenditure

The current situation represents a substantial increase in coverage of large programs.

We have identified large programs that have been subject to little or no evaluation.

Performance reporting in business plans or to Parliament provides the opportunity for integrating the findings of evaluations.

We did not find a comprehensive, clear and consistent statement of government evaluation priorities.

management system, the process by which it makes decisions on programs and spending. We generally support the direction being pursued by the government in this area.

3.61 Under the system, three-year business plans are to outline how departments plan to achieve their program priorities within reduced resources. Departments are expected to identify performance targets and report against these targets in future years. They are also to list key areas for review through evaluations, internal audits or other means. Departmental business plans therefore provide an opportunity to link review and evaluation plans to the budgeting process. Performance reporting in business plans or to Parliament provides the opportunity for integrating the findings of evaluations. It also provides a mechanism for government, and Parliament, to assess progress in evaluating programs.

3.62 The renewed system is still in the early stages of development: 1995 was the initial year, and the system is still evolving. In this initial year, business plans were to focus on areas of change rather than overall departmental activity, which limited the extent to which they could contribute to an overview of priorities for evaluation. Performance reports to Parliament are starting on a pilot basis this year.

3.63 Our analysis of business plans found that 65 percent included review priorities. It is still too early to judge the impact this will have on the planning of evaluations in departments and the extent to which they will meet government priorities.

3.64 Deputy heads should ensure that departmental business plans

include evaluation findings and identify priorities for evaluation.

No systematic statement of government evaluation priorities and no system to ensure they are addressed

3.65 In 1993 we noted that Comptroller General staff did not have a systematic approach to identifying the government's priority needs for program evaluation, and had not ensured that individual departmental plans took into account what the government needed from evaluation. We recommended that the Office of the Secretary of Treasury Board and Comptroller General develop the capacity to identify systematically the government's priorities for evaluation.

3.66 The government has noted that planned reviews were listed in the 1994 Budget. The 1995 Budget did not continue this practice of providing a clear listing, although there are scattered references to a number of reviews. As noted previously, the reviews announced in 1994 did not always lead to effectiveness measurement and analysis.

3.67 We did not find a comprehensive, clear and consistent statement of government evaluation priorities that departments can use in developing their own plans or that Treasury Board Secretariat can use in carrying out its government-wide responsibilities. *Strengthening Government Review* states that there is a demand for a more structured central identification of review issues and commits the Treasury Board Secretariat to a greater focus on this area.

3.68 Linking of government evaluation priorities to departmental plans is unclear. A government-wide evaluation plan is one means for ensuring that individual departments' plans address government-wide evaluation priorities,

and for identifying evaluations that must be centrally initiated or led.

3.69 In 1993, we observed that Comptroller General staff did not play a leadership role in planning but relied on the planning processes in individual departments. In its report on program evaluation, the Public Accounts Committee recommended that the Treasury Board Secretariat submit a three-year government-wide program evaluation plan to the Committee by October 1995.

3.70 In its response to the Public Accounts Committee the government did not agree with the need for a three-year evaluation plan. In its place, it would consolidate planned and completed key evaluations and reviews of departments as part of the Annual Report of the President of the Treasury Board.

3.71 Annex C to the President's Report consolidates key completed, planned and ongoing reviews reported by departments. However, the document includes not only evaluations but other reviews, without always distinguishing their nature. For many of the reviews listed, it is not clear whether an analysis of the effectiveness of the program was or will be part of the review. However, we note that other, more detailed documentation provided to the Public Accounts Committee identifies evaluations, audits and reviews.

3.72 In 1993, we recommended that the Office of the Secretary of Treasury Board and Comptroller General review individual departments' evaluation plans to identify gaps in the coverage of identified priorities. The reviews listed in Annex C of the President's Report are not compared with a government-wide plan or list of priorities. We note that a precondition for such a comparison would

be a government-wide evaluation plan or list of priorities. Neither of these exists at this time.

3.73 Nevertheless, the President's Report notes that Treasury Board Secretariat will provide Treasury Board ministers with a report that examines review findings and plans in light of government priorities. The analysis is to identify gaps in the monitoring of government-wide issues and an update is to be provided in next year's Report to Parliament.

3.74 **The Treasury Board Secretariat should ensure that there is a clear statement of specific government evaluation priorities. It should monitor departmental business plans for gaps and omissions with respect to government priorities and take steps to deal with gaps and omissions.**

Government reporting on review — a good first step, but improvements are needed in future reports

3.75 The ability of the government and Parliament to assess the adequacy and sufficiency of evaluation depends on the reporting of progress and results of these activities.

3.76 In 1993 we recommended that the Secretary of the Treasury Board ensure that information on evaluation activity and performance is valid and reliable. The Public Accounts Committee recommended that, starting on 31 October 1995, the Secretariat produce an annual report on departmental evaluation performance.

3.77 The Treasury Board Secretariat notes that the government, in its response to the Public Accounts Committee, did not agree to all of the recommendations of the Committee. The government indicated that it would report on: the extent to

The reviews in the President's Report are not compared with a government-wide plan or list of priorities.

which significant policies, programs and operations are reviewed over time; the use and impact of findings; areas for improvement; and actions taken to correct identified weaknesses. A semi-annual status report on the activities of the Government Review and Quality Services Sector of Treasury Board Secretariat is also provided to the Public Accounts Committee.

3.78 The first President's Report — a promising first step. The President of the Treasury Board tabled the first Annual Report on the Performance of Review in November 1995. A list of key audits, evaluations, reviews and special studies was also sent to the Public Accounts Committee. We examined the performance statements from the President's Report that were within the scope of our audit.

3.79 The President's Report expresses a continuing strong commitment to measuring program results and managing on the basis of the results achieved. The Report presents expectations for government review activities, assesses some strengths and weaknesses of review activities, and sets out some actions for the future. This general approach provides a promising basis for future reporting.

3.80 The President's Report does not give an adequate picture of success in measuring effectiveness. The ultimate objectives of the review and evaluation policies are to have timely, relevant and evidence-based information on the performance of programs, including their effectiveness, and to have this information used for decision making and accountability. Our particular interest was to know if these objectives are being met.

3.81 The recommendations of the Public Accounts Committee provide examples of areas for which measures

could be developed. It recommended the provision of information on:

- the percentage of each program that has been evaluated;
- whether the programs have been evaluated from the standpoint of relevance as well as achievement of objectives and cost effectiveness;
- who used the evaluation studies;
- the studies' timeliness;
- the savings made possible by the studies; and
- the proportion of government expenditure covered by the studies.

3.82 The Committee asked that the report be linked to the three-year government-wide evaluation plan it had also requested. It also specified that other forms of review were not a substitute for evaluation.

3.83 The President's Report does not distinguish evaluation from other forms of review. Because other forms of review do not necessarily address effectiveness questions, it is difficult to assess progress in effectiveness measurement and analysis. For example, estimates of the coverage of government expenditures differ from those by this Office partly because the Report does not separate evaluations from other forms of review.

3.84 The Report provides some specific examples of the successes of departmental reviews. However, it does not provide clear measures of the type recommended by the Public Accounts Committee, except for reporting on the percentage of government activities covered by review. Nor does it report progress against government priorities for evaluation. In general, the Report does not focus on the success of evaluation and does not provide an adequate picture of progress in this area.

The first President's Report is a promising first step.

3.85 The President's Report presents an overly optimistic picture of progress.

We are encouraged that the Report identifies some areas that need improvement. Nevertheless, in our opinion, the Report provides an overly optimistic view of progress for an activity that is undergoing major change and dealing with many important challenges. We found a number of instances where the supporting information coming from background work undertaken or commissioned by the Treasury Board Secretariat or the findings of past or current audit work of this Office were not as positive as the information presented in the President's Report. We also found that a number of overall positive statements were not well supported. However, the Treasury Board Secretariat believes, based on the results of its quality assurance practices, that the information used to prepare the report is quite reliable. Nevertheless, the Secretariat acknowledges that, in view of the amount of information from diverse sources, there can be errors in specific items of data and different interpretations of findings. Secretariat officials note that quality assurance practices are being strengthened to add credibility to future reports.

3.86 The Treasury Board should ensure that its report to Parliament credibly represents the performance of review and includes specific measures on evaluation. The report should include the government's evaluation priorities and progress in addressing them.

Limited improvement in management of evaluation in departments

3.87 Treasury Board evaluation policy requires that departments have an evaluation capacity. We identified 39 departments and agencies with active

review or evaluation units that performed evaluations and were monitored under the Treasury Board policy. The management of these units is important for ensuring progress in measuring the effectiveness of government programs. We examined changes in the resources and structure of evaluation units, and progress in improving key aspects of management.

3.88 Overall expenditures on evaluation by evaluation units have been maintained since 1991–92. Because of the increased organizational integration of internal audit and evaluation, many review heads had difficulty providing reasonable estimates of expenditures on evaluation. Department-specific comparisons between 1991–92 and 1994–95 are impossible in a number of instances because of the reorganization of government departments that started in 1993.

3.89 Although precise estimates of expenditures on evaluation are not possible, evaluation units spent approximately \$25 million on evaluations in 1994–95, down only slightly from expenditures in 1991–92. While evaluation expenditures have been maintained overall, we found that there have been sizeable decreases in expenditures in a number of smaller departments.

3.90 Evaluation is becoming less distinct from other functions. In 1993 we observed that, increasingly, program evaluation and internal audit were being managed jointly. This trend has continued. Currently, 56 percent of departments place evaluators and auditors in a combined unit, compared with 33 percent in 1993. The Audit and Evaluation Branch at the Royal Canadian Mounted Police is an example of totally merged internal audit and evaluation functions (Exhibit 3.7).

The President's Report does not provide an adequate picture of progress in evaluation.

We found limited or no improvement in some key aspects of evaluation management.

3.91 In 1993 we reported that only a few studies were carried out jointly by internal audit and program evaluation units. This time we found that four units reported conducting only or mainly joint studies that did not distinguish between the work of evaluation and that of internal audit. Twelve other units sometimes conducted joint studies and sometimes separate ones.

3.92 The approaches of internal auditors and evaluators and the purposes of the end products are different. The two functions are guided by different Treasury Board policies and standards, and there are distinct professional standards for internal audit. Regardless of the organizational structure, we consider it important that the Treasury Board clarify the standards that apply to measurement and analysis of effectiveness.

3.93 Limited attention to improving key aspects of the management of evaluation since our 1993 audit. Review heads told us that they had experienced difficulties in improving the management of evaluation because of the changes sweeping through many departments. Departments have lost, gained or redesigned programs or they have recombined into new departments. The

time taken to finalize departmental structures has made evaluation planning difficult. Old policies and structures for evaluation no longer apply in a number of departments and new ones are being developed.

3.94 As a result, we found limited or no improvement in some key aspects of evaluation management identified in 1993. At that time, we observed that the use of program evaluations was related to senior management involvement in planning evaluations and in following up on evaluation results, and we recommended improvements. We also noted that few systematic approaches were in place to provide a basis for program evaluation managers to assess the performance of their units.

3.95 Although the large majority of departments still have evaluation plans, there are now more departments without plans than in 1993 (Exhibit 3.8). In addition, only a few departments identify priorities for evaluation systematically and formally. As mentioned before, departmental business plans are supposed to include evaluation priorities. This has the potential to improve evaluation planning.

Exhibit 3.7

The Audit and Evaluation Branch at the Royal Canadian Mounted Police

In 1994–95, the Audit and Evaluation Branch used about 36 full-time equivalents and spent just over \$2.6 million. About 11 of these full-time equivalents and about \$0.8 million went to evaluation. In 1995, the Branch was reduced to 20 full-time equivalents.

The Officer in Charge of the Audit and Evaluation Branch reports to the Director, Audit, Evaluation & Corporate Services Directorate. This individual reports to the Deputy Commissioner, Corporate Management. The Branch does not have auditors and evaluators working separately; instead it has review principals and reviewers. The audit and evaluation functions are merged; they produce a common planning document and combined audits and evaluations.

Between 1992–93 and 1994–95, the Branch produced 11 studies that examined effectiveness. Evaluation activities are based on a two-year plan. Plans and evaluation studies are approved by the Audit and Evaluation Committee of senior officials, chaired by the Commissioner.

3.96 Deputy heads should ensure that plans for evaluation are developed as part of their business planning.

3.97 There has been no improvement in the availability of mechanisms to monitor progress in implementing corrective action identified by evaluations. Less than two thirds of departments have in place a follow-up mechanism. However, the business planning process has the potential to encourage corrective action to address key evaluation findings.

3.98 There is still no systematic process in place in most departments to objectively assess and demonstrate the value obtained from evaluation. Few departments have such mechanisms. Steps are being taken to develop frameworks to help evaluation managers better assess the contributions made by evaluations. An interdepartmental committee of review officials, with the assistance of the Treasury Board Secretariat, is in the final stages of developing a framework for measuring the performance of program evaluation. It is important that evaluation managers move quickly to improve the performance measurement of their evaluation efforts.

Ongoing concerns about scope and quality of evaluations

3.99 As early as 1983, we found that a substantial number of evaluations had significant weaknesses in the methods used to carry out planned work, particularly with regard to measuring program effectiveness. In 1993 we examined the quality of evaluations in the 11 programs audited and found it to be uneven. We identified a need to improve external review of program evaluation. We recommended that the government ensure that the responsibilities of the

Comptroller General for monitoring and quality assurance were carried out.

3.100 The President's Report recognizes that there is some concern about the credibility of departmental review findings when used for government decisions, accountability and public reporting. It attributes this concern to differences in views on the questions addressed, and to the perception that departmental review reports may sometimes interpret results in a manner that could be considered self-serving. Background work conducted for the President's Report shows that this concern applies especially to evaluation.

3.101 Our ongoing audit work in departments over the past three years supports concerns about the scope and quality of evaluations. Since 1993, a number of our value-for-money audits have found that important accountability issues were not addressed in evaluations or there were problems with the methodology used to support conclusions. However, we also identified a number of evaluations where the quality was acceptable. Quality problems occur despite the fact that all 39 review heads identified for us an extensive range of quality control mechanisms.

3.102 In his Report, *Strengthening Government Review*, the President of the Treasury Board expresses the intention of the Treasury Board Secretariat to address

Exhibit 3.8

Proportion of Departments with and without Evaluation Plans

Department	1991–1992	1994–1995
Departments with evaluation plans	41 (98%)	32 (82%)
Departments without evaluation plans	1 (2%)	7 (18%)
Total	42 (100%)	39 (100%)

credibility problems by exploring options to increase external participation in significant review activities. It is important that the Treasury Board Secretariat move vigorously to improve evaluation scope and quality.

3.103 Lack of clear standards. In 1993 we observed that the essential components of a program evaluation system were in place, including the standards to be achieved. Since then, Treasury Board has revised the policies for evaluation and internal audit, and has added a new umbrella policy on review. The new policy covers reviews that fall outside of evaluation and internal audit standards, and brings some guidance to bear in these areas.

3.104 The new review policy defines evaluation and internal audit; the policies for internal audit and evaluation provide standards. Standards are provided both for the practice of evaluation in departments and for individual evaluations. Evaluation standards require measurement and analysis, including the use of practical, cost-effective and objective data collection. The standards further clarify the issues to be addressed by evaluations. However, the review policy does not make explicit the standards that apply when effectiveness measurement and analysis is conducted as part of reviews other than evaluations.

3.105 The quality of studies of effectiveness other than evaluations is important because of the frequency with which departments use them. In 1993 we observed that in five of 11 programs examined, managers turned to special studies for input to policy development. In this audit, we asked review heads to identify for us not only completed evaluations but also reviews other than evaluations that contained a disciplined and analytic assessment of the

effectiveness of programs and operations. For the three-year period examined, the 39 departments identified 347 evaluations and 187 other effectiveness reviews. The actual number of other reviews is probably substantially higher, as not all review heads could identify them for us.

3.106 The Treasury Board Secretariat should make clear the quality standards to be applied for different types of effectiveness measurement and analysis.

Conclusion

3.107 The need for good information on the effectiveness of programs remains strong. At the same time, the government continues to commit resources to evaluation, particularly in the larger departments. We noted in our audit that a changed, and still changing, environment for planning and conducting evaluations creates challenges for many departments. Evaluations have had to be planned and conducted in an environment dominated by reorganizing, restructuring and downsizing of government programs. Changes to departments and programs involve changes to the structure for evaluation. At the same time, Treasury Board policies governing evaluation and related work have changed. They now include sources of effectiveness information other than the work of evaluation units, but do not make clear the quality standards that apply to effectiveness measurement and analysis conducted as part of reviews other than evaluations.

3.108 In this context of change and uncertainty, some of the improvements we recommended in 1993 to key systems and procedures for managing evaluation in departments and agencies are not yet in place. We still see weaknesses in planning, in monitoring action in response to the findings of evaluation studies, and

in implementing systematic approaches to assessing the performance of evaluation units. In audits carried out by this Office over the past three years, we have continued to find problems with the scope and quality of evaluations.

3.109 In 1993 we questioned the balance struck between meeting the information needs of program managers and those of other stakeholders — such as the Cabinet and Parliament. In this audit we found progress in measuring the effectiveness of large programs (those with annual expenditures of over \$1 billion) and in examining government programs and policies from the perspective of their continuing relevance and the cost effectiveness of alternatives.

3.110 Although departments have shown that they can respond to demands for information on the accomplishments of key programs, most evaluation units in the departments we examined have continued to focus on smaller program components and the operational needs of program managers. This is an important and necessary role but, by itself, would leave a gap in effectiveness information needed for accountability and strategic decision making.

3.111 In 1993 we also identified the need to improve government-wide systems and procedures for evaluation — particularly in relation to the government-wide planning of evaluation and the leadership role of the Treasury Board Secretariat. The Public Accounts Committee subsequently made a number of related recommendations specifically addressed to the Treasury Board Secretariat. We note that measures currently being implemented under the government's renewed expenditure management system have the potential to respond to many of our recommendations and those of the Public Accounts

Committee. However, we found that two key elements are still missing — a systematic identification and communication of the government's evaluation priorities, and a clear mechanism for assessing departmental plans against those priorities.

3.112 The Public Accounts Committee recommended that the approval process for evaluation plans be spelled out in detail. Responsibilities for evaluation planning are spelled out in the Treasury Board review policy and in the new business planning guidelines. Criteria for determining when evaluations will come under the Secretariat's control are not set out in advance. Decisions on Treasury Board Secretariat involvement and on what special funding is required are made on a case-by-case basis. As requested by the Public Accounts Committee, the activities of the Government Review and Quality Services Sector are reflected in the semi-annual status report given to the Committee. The Treasury Board Secretariat is pursuing the examination of submissions to the Board with a view to requiring an evaluation framework for new programs.

3.113 The President's Report, the annual report on the performance of the review function in government, is a step in the right direction. The general approach of setting expectations, assessing strengths and weaknesses and establishing an action plan is promising. However, to respond more fully to the Public Accounts Committee's request for a report on the performance of the evaluation function, future reports need to provide a more adequate picture of overall success in evaluating government programs.

Treasury Board Secretariat's comments:
This chapter confirms the considerable progress of the government in reviewing its programs. The Treasury Board Secretariat is dedicated to helping

departments deliver cost-effective programs for Canadians while sustaining a management culture that is fact-based, results-oriented, open and accountable. Effective review is an important part of this. We welcome the chapter as supporting our actions in the pursuit of this objective.

Program Review and the first President's Report to Parliament on review — Strengthening Government Review — were major steps in putting the focus on results in serving Canadians. For the first time, departments examined their programs from the perspective of the Program Review tests. They described the management of their review activities in terms of current expectations, and made

public the list of both completed and planned key reviews. These developments are most significant.

The President, in his Report to Parliament on review, recognized that more needs to be done to strengthen the government's review activities and published an action plan. This chapter is supportive of the government's commitments. The Treasury Board Secretariat is actively pursuing each initiative in the government's action plan.

We welcome continued monitoring of the government's progress in measuring results and performance, as public attention and accountability are important to effective performance.



About the Audit

Scope

Our audit examined measurement and analysis of effectiveness in the federal government. More specifically, we examined the planning, management and reporting of evaluations. Evaluations included in the audit were identified by heads of review in 39 departments and agencies as meeting the requirement of disciplined measurement and analysis of the effectiveness of programs. These evaluations were conducted either within or outside of departmental evaluation units. We examined the business plans for the 39 departments and agencies. We also examined the related activities in the Government Review and Quality Services Division at the Treasury Board Secretariat.

Objectives

Our audit objectives were:

- to describe the new framework for evaluation in government and the changes to the structure in place to conduct evaluations in departments, and to determine the extent to which these changes respond to our observations and recommendations of 1993; and
- to assess the government's progress in responding to our 1993 chapters on program evaluation and to the recommendations of the Public Accounts Committee.

Approach

The criteria used for the audit were the same as in 1993. In conducting our examination, we administered a questionnaire and interviewed heads of review about the structure, planning, reporting, management and resourcing of evaluations in 39 departments and agencies. We also examined their business plans. In four departments, we assessed the scope of all evaluations completed between 1 April 1992 and 31 March 1995, as identified by review heads. We also conducted focus groups with heads of review to obtain their views on the directions evaluation is taking in the federal government and the factors shaping these directions.

We met with Treasury Board Secretariat officials and assessed supporting background information for commitments made in the government's response to the Public Accounts Committee and for information contained in the President's Report.

Audit Team

Henno Moenting
Jim Blain
Sylvie Cantin
Janet Hatt
Brenton MacDonald
Christine Pépin
Sylvie Soucy
Glenn Wheeler

For information, please contact Stan Divorski, the responsible auditor.

Report of the Auditor General of Canada to the House of Commons – 1996

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Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 4
Internal Audit in Departments and Agencies

May 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 4
Internal Audit in Departments and Agencies



May 1996

This May 1996 Report comprises 12 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 4

Internal Audit in Departments and Agencies

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Internal Audit in Departments and Agencies

Assistant Auditor General: David H. Roth

Responsible Auditor: Bruce C. Sloan

Main Points

- 4.1** The government is going through a period of tremendous change, in which departments are being streamlined and restructured in an effort to reduce the administrative cost of government while maintaining or improving the delivery of government programs to Canadians. Although these changes may influence the nature and location of organizational controls, they have not lessened the need for the organization to be in control. Within this environment, the need for effective internal audit has never been more important to ensure that departmental programs and operations are properly managed.
- 4.2** An effective internal audit unit is a fundamental management tool. It can provide deputy ministers with assurances about the efficiency and effectiveness of key financial, administrative and operational activities and departmental management practices, along with suggestions for improvement.
- 4.3** The support of senior management is essential if internal audit is to be an effective, contributing part of an organization. To a great extent, the relationship between internal audit and senior management determines the respect internal audit receives from operating managers. We found that, while senior management expressed general support for the internal audit function, its perception of the role of internal audit was narrower than that of senior management in the private sector.
- 4.4** The Treasury Board Secretariat carries out a number of activities that it believes are designed to further the implementation and monitor the effectiveness of the internal audit policy, one element of the Review Policy. In our view, these efforts have not been sufficient to provide an assessment of the effectiveness of the government's internal audit policy.
- 4.5** While some internal audit units have improved their performance since 1993, we found that, overall, there has been little improvement since our 1993 audit. Of the seven departmental internal audit units we reviewed in detail, four do not meet established standards for the practice of internal audit.
- 4.6** We noted that internal audit coverage of computer systems under development has improved. However, further improvement is still needed in other areas if internal audit is to fulfill its potential.
- 4.7** To fulfill that potential, internal audit must improve the balance of the scope of its work, including both compliance and control issues and the assessment of the efficiency and effectiveness of departmental operations.
- 4.8** As part of our audit, we assessed the extent to which departments were using appropriate methods and techniques for measuring the effectiveness of their internal audit units — that is, their contribution to improving the way a department operates. We found that in 1993 virtually no audit units were measuring their own performance. However, approximately half of the audit units are now doing so in some way.

Introduction

4.9 Internal audit has two primary tasks. The first is to review and independently assess the management practices associated with an organization's key financial, administrative and operational activities. The second is to recommend to management where improvements can be made.

4.10 Having a well-functioning, effective internal audit organization in his or her department should be of utmost importance to every deputy minister. It is important because internal audit can be extremely useful in helping a deputy head remain accountable to the minister and, in turn, strengthening the minister's accountability to Parliament for using resources efficiently and effectively.

4.11 Many private sector companies that have gone through the same degree of change that the government is currently experiencing see internal audit as a critical element of their management and control framework. They have found that internal audit contributes significantly to both improving the way the organization operates and helping management to achieve its organizational objectives.

4.12 In our view, this is the role that internal audit can and should be playing — but is not yet playing — in the federal government. In fulfilling this role, internal audit's first responsibility is to provide senior management with sound information and advice about the adequacy of the organization's systems of internal control and on how well they are performing. By providing this type of information to management, internal audit is helping management to achieve its business objectives and fulfil its operating responsibilities. In so doing, a strong internal audit function can help the government to achieve its twin objectives

of creating a less costly, more innovative and service-oriented public service while maintaining probity and prudence and strengthening accountability.

4.13 Within the federal government, a number of organizations/units have well-defined responsibilities for the effective implementation of the internal audit policy. Exhibit 4.1 lists these organizations/units and their respective responsibilities.

4.14 In carrying out these responsibilities, the government spent about \$48 million in 1994–95, and employed about 590 internal auditors in 39 departments and agencies. This reflects a decrease from 1993. In that year, resource expenditures were \$56.6 million, and 700 internal auditors were employed.

The Current Environment

4.15 The environment within which the government is operating has continued to evolve since 1993, when we last conducted a comprehensive review of internal audit. Through its budget statements, the government has introduced a number of far-reaching changes. These include:

- reductions in departmental budgets;
- restructuring of departments and programs;
- reductions in the size of the public service; and
- new and tighter systems for managing spending.

4.16 Subsequent to our 1993 government-wide audits of internal audit and program evaluation, the Treasury Board issued its new Review Policy. The stated objective of this policy was to ensure that the government:

- has timely, relevant and evidence-based information on the

Internal audit can be extremely useful in helping a deputy head remain accountable to the minister and, in turn, strengthening the minister's accountability to Parliament.

No single factor is more important to effective internal audit than the attitude and expectations of the deputy head.

performance of its policies, programs and operations, including the results they achieve; and

- uses this information to improve the management and cost effectiveness of policies, programs and operations, and to account for results.

4.17 The Treasury Board established the Review Policy as an umbrella policy that recognized three components:

- management's efforts and practices for monitoring, measuring and reporting on their accomplishments against stated objectives;
- internal audit that provides senior management with independent, objective assurances and advice on departmental systems and management practices; and

- program evaluation, which provides senior management with information on the extent to which policies and programs are relevant and cost-effective.

Observations

4.18 In this audit, we examined the extent to which departments and agencies have responded to the observations and recommendations in our 1993 Report. Further details on the audit objectives, scope and criteria are included at the end of the chapter in the section "About the Audit".

Stronger Support and Direction Needed from Senior Management

4.19 Probably no single factor is more important to effective internal audit than the attitude and expectations of the deputy

Exhibit 4.1

Organizational Responsibilities for Internal Audit

Organization/Unit	Responsibilities
Treasury Board	Approving internal audit policy
Treasury Board Secretariat	Providing leadership and support to the internal audit community Monitoring the implementation and effectiveness of the internal audit policy, standards and code of ethics
Departmental Deputy Heads	Effective management of departmental programs and operations Appointing and providing support to a departmental head of internal audit who is independent of departmental operations Approving planned internal audit coverage Reviewing completed audit reports and management's corrective action plans Using audit findings, analyses, conclusions and recommendations for decision making
Heads of Internal Audit	Managing the internal audit function in accordance with government policies and standards

head. Our 1993 Report noted this fact. Similarly, our study of best practices in other organizations stressed that strong support from senior management is an essential precondition to an effective internal audit function. Within a department, only the deputy head can ensure that internal auditors have the reporting relationship that allows them to remain independent from departmental operations. That independence is essential to maintaining their objectivity in carrying out their audit work and reporting the results. Further, only the deputy head can signal the importance of internal audit by becoming personally involved in establishing its mission, setting its priorities, reviewing results, and meeting regularly with the auditors.

4.20 The key role to be played by deputy heads of federal departments and agencies is underscored by a significant difference in practice between public and private sectors. In the private sector, the audit committees of publicly held organizations are usually composed of non-employee members of the board of directors. This practice provides the basis for the independence of audit activities from the operations of the organization. In contrast, federal departmental audit committees are normally composed of managers of the department.

4.21 The government's internal audit policies have long recognized the importance of strong senior management support for internal audit. In fact, the government's 1994 Review Policy identifies specific responsibilities in relation to internal audit for which deputy heads are accountable. These include determining what is to be audited, using the results of internal audits to maintain and improve programs, and maintaining strong internal audit and evaluation in their departments.

4.22 In 1993, we reported that several senior managers said that they had an internal audit group in their department only because Treasury Board policies required it. This attitude was due, in part, either to a lack of understanding of the benefits that an effective internal audit unit can bring to a department or to prior bad experiences with the function.

4.23 Three years later, we found the situation essentially unchanged in many departments. In some departments, the deputy heads were not involved in deciding what audits would be done; the choices were left to lower-level managers in the department. As a consequence, actual audit coverage may not address areas of most significance and risk or areas of most importance to senior management.

4.24 We also noted that, even though regular follow-up to determine whether managers had acted on audit recommendations is required by Treasury Board Standards, it was not carried out in four of the departments that we reviewed in detail.

4.25 During the audit, we reviewed senior management support and direction for internal audit units in a number of ways:

- the frequency of meetings between the audit executive and the deputy head of the department;
- the reporting relationship of the audit unit;
- approval of planned audit activities by senior management;
- consideration by senior management of the results of audits, and subsequent follow-up on planned corrective actions; and
- the results of interviews with deputy heads and departmental managers.

A fundamental question is why, in general, there continues to be a lack of strong senior management support.

We noted a strong correlation between those departments with strong senior management support and direction and the effectiveness of their internal audit function.

4.26 During interviews conducted as part of our audit, deputy heads expressed general support for their internal audit function. However, few deputies or other senior managers could translate that support into specific expectations or requirements for internal audit services.

4.27 In Public Works and Government Services Canada, the deputy head noted that having an effective internal audit group was not a question of policy; rather it was a question of good management practice. In this instance, the deputy noted specific uses he made of the function. For example, internal audit provided assurance, prior to signing significant contracts, that departmental contracting procedures had been followed. In another department, the audit committee (a requirement for all departments and on which the deputy head and other senior managers sit) had not met in over three years, either to review and approve planned audit coverage or to consider the results of audit work performed and the necessary corrective action. In this department, the internal audit group had completed very few audits.

4.28 As was the case in 1993, we noted a strong correlation between those departments with strong senior management support and direction and the effectiveness of their internal audit function.

4.29 One important way for departments to signal the importance of the audit function, and support for it, is through having internal audit report directly to the deputy head. However, of the seven departments reviewed in detail, only Public Works and Government Services Canada benefited from this reporting relationship. Accordingly, internal audit's ability to examine departmental activities independently and objectively could be hindered. In one

department, the organizational status of the head of audit was not sufficient, in our opinion, to permit the accomplishment of audit objectives.

4.30 A fundamental question is why, in general, there continues to be a lack of strong senior management support. During interviews, managers often cited reasons similar to those noted in our 1993 Report. These included a lack of understanding of the function and poor results from internal audit. We also noted that government managers had a narrower range of expectations for the role of internal audit than managers in the private sector.

4.31 We compared the internal audit expectations of senior managers in the Canadian federal government with those of senior managers in the private sector and other governments, using the results of surveys conducted by the Institute of Internal Auditors. The results are shown in Exhibit 4.2. There are sharp differences between the two groups surveyed with respect to internal auditing of efficiency and effectiveness, human resource management issues, and proactive initiatives. In each case, very few federal government managers reported that they expected internal audit to address those areas, in contrast to the majority of non-government managers.

4.32 The difference in expectations with respect to human resource management issues may be due to the fact that the Public Service Commission conducts audits of human resources in all departments, so senior managers do not perceive a role for internal audit in this area. The differences with respect to efficiency and effectiveness and proactive audit work appear to be attributable to an incomplete understanding of the potentially valuable role of internal audit in these areas — a role identified for internal audit in the government's policy.

Another factor may be that management looks to other sources for information concerning these issues. For example, the work of program evaluation includes coverage of operational issues. The impact of these factors can be seen in the limited internal audit coverage of some departmental activities, as described in the following section.

4.33 The results of the 1995 Global Audit Information Network (GAIN) survey, which covers a broad range of industry groups (although no Canadian government departments participated), are shown in Exhibit 4.3. The results reflect the expectations of senior management for internal audit of organizations participating in the GAIN survey. These managers have high expectations that internal audit resources will be strategically allocated to address all aspects of their organization's operations.

4.34 There is a need for senior government managers to develop a more complete understanding of how internal

audit can best serve their organizations in order to get the greatest payback from the function. Because this is an issue that exists in many departments, it is important that leadership for improved understanding come from the Treasury Board Secretariat.

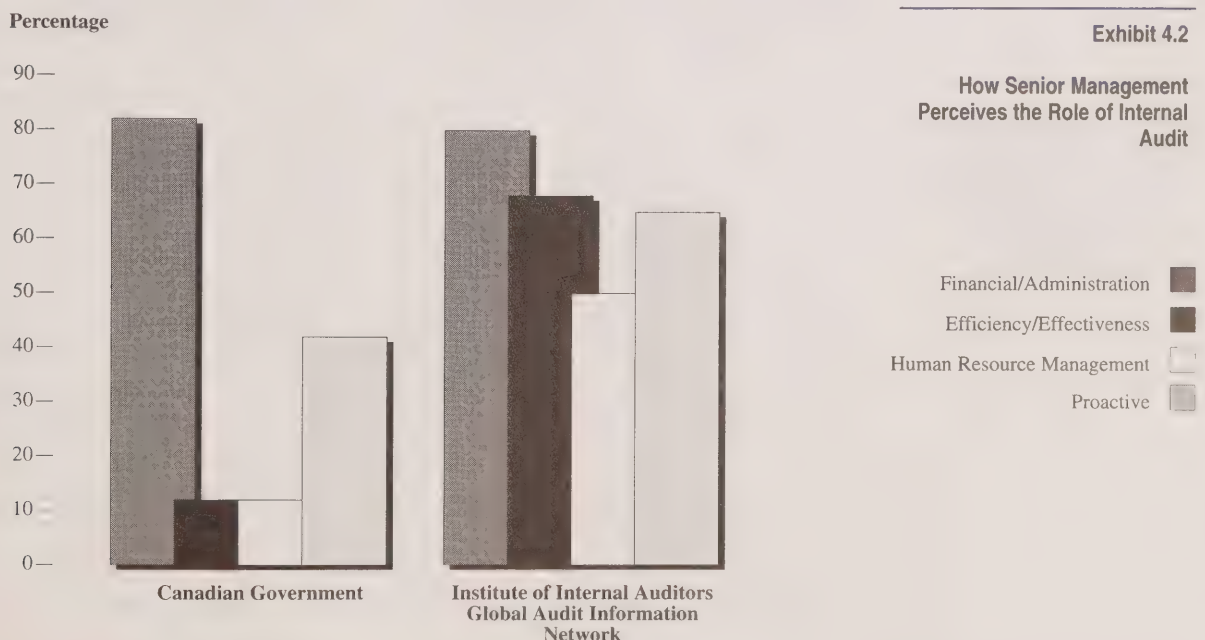
4.35 As we reported in 1993, a pressing need remains for the Treasury Board Secretariat, together with senior managers, both to develop a common vision of the role of internal audit within the federal government and to decide how to obtain more value from the \$48 million annual investment.

Internal Audit Coverage

4.36 We assessed the adequacy of internal audit's coverage (that is, what the audit looked at) in terms of the extent to which audits focussed on:

- high-risk areas;
- areas of high priority for departments and the government;

A pressing need remains for the Treasury Board Secretariat, together with senior managers, to develop a common vision of the role of internal audit.



The best audit work and best audit reports will be of little use if they do not deal with what is important.

- significant computer systems; and
- the areas identified by Treasury Board Internal Audit Standards as constituting the scope of internal audit coverage.

Deciding what to audit — risk assessment

4.37 The responsibility for determining what is to be audited, and when, ultimately rests with the deputy head. While departments are to determine what is to be audited, evaluated or otherwise reviewed, the Treasury Board is to identify government-wide issues related to its needs, or those of other Cabinet committees. The Treasury Board Secretariat is also responsible for the extent to which significant policies, programs and operations are audited over time. Since 1993, Treasury Board Secretariat has directed departments to conduct audits of year-end spending and advance payments.

4.38 To get the most from the resources used to carry out internal audits, it is important that these audits focus on

the highest-priority and highest-risk areas of government and in individual departments and agencies. The best audit work and best audit reports will be of little use if they do not deal with what is important to departmental or government success.

4.39 In 1993, we noted that improvements were still needed in audit coverage. As well, in some departments, the internal audit group did not undertake independent assessments of proposed coverage, limiting audits to those issues identified by departmental managers. We also noted that many internal audit reports contained observations of little significance.

4.40 Our 1996 audit found that in general, departmental audit groups have not developed and implemented formal mechanisms for providing independent advice to deputy heads on the coverage and timing of audits.

4.41 Advice on audit coverage needs to be based on an assessment of risk, a process through which professional judgment is applied in considering basic

Exhibit 4.3

Role of Internal Auditing – As Viewed by Audit Committees of Organizations Participating in the Institute of Internal Auditors Global Audit Information Network



questions about departmental programs and operations. These questions include:

- What can go wrong?
- What is the probability of it going wrong?
- What are the likely consequences if it does go wrong?
- Who will be affected if it goes wrong?
- What procedures has management implemented to control risks and to mitigate potential consequences?

4.42 These are the types of questions that senior management should expect internal audit to address in developing and presenting annual audit plans. For the period covered by our audit, we noted that, in two of the seven departments we reviewed in detail, annual audit plans based on the degree of risk associated with a given audit area were neither prepared nor presented to senior management.

Program review — a priority in all departments

4.43 Program review requires that departments assess their programs to identify opportunities to increase efficiency and operate more economically.

4.44 We would have expected internal audit groups to be widely used as analytical support in the reviews. However, very few of the audit groups we looked at were used by their departments as sources of information and advice concerning potential increases in efficiency or economy in support of the program review exercise.

Internal audit coverage of computer systems is improving

4.45 In investigating the internal audit coverage of automated systems, we first reviewed the extent to which internal

audits had been completed for the 23 largest systems being developed across all government departments, as identified by the Treasury Board. These large systems are important for two reasons:

- They are costly for the government to develop.
- They are critical to the delivery of government programs.

4.46 Continuously reviewing systems while they are under development can alert senior managers to changes in the factors relating to costs, anticipated benefits, controls or other issues in time to make adjustments if needed. It is generally recognized that changes to a system are much less costly in the early stages of design than after the system has become operational. We found that of the largest systems under development (some of which had been under development for over 10 years), approximately half had been audited once. We have therefore concluded that internal audit coverage of computer systems under development has improved since our 1993 audit.

4.47 We also examined the internal audit coverage of major operational computer systems in a sample of departments. Coverage of these systems varied considerably, from little or no coverage in some departments to more extensive coverage in others.

Meeting Treasury Board Standards

4.48 An internal audit can deal with many different subjects. Treasury Board's Internal Audit Standards indicate that the scope of internal audit work should include:

- the examination and evaluation of the adequacy and effectiveness of the department's system of internal control (the management framework, which consists of the collection of inter-related

Internal audit coverage of computer systems under development has improved since our 1993 audit.

systems and practices for achieving established objectives);

- accomplishment of established objectives and goals for operations (specifically whether operations and programs are being carried out as planned, and whether operations are consistent with goals and objectives);
- reliability and integrity of information;
- compliance with policies, plans, procedures, laws and regulations;
- safeguarding of assets; and
- economical and efficient use of resources.

4.49 We would have expected that internal audits would focus on all these areas. In reviewing recent audit reports from 39 government organizations, we found the following:

- The most frequently reported internal audit conclusions and recommendations relate to departmental management frameworks, particularly the need for plans, strategies and mission statements. In the 51 completed audits we reviewed, there are more than 80 recommendations that called for the organization to develop plans, strategies and mission statements.

- More than half of the internal audits comment on the reliability and integrity of departmental information.

- About 75 percent of internal audits cover, to varying degrees, compliance of departmental operations with applicable legislation, policies or regulations. Only rarely did these audits question the administrative costs associated with implementation of these policies.

- Very few internal audits report on the achievement of established objectives and goals.

- Many audits deal with the means used to safeguard government assets, whether financial, physical or information.

- Only about six percent of the audits we reviewed identified specific dollar savings, or efficiency improvements for departmental programs. In some instances, internal audits do identify changes that could lead to generally minor, unspecified increases in productivity or reduced operating costs. In two cases, the departmental audit units used benchmark comparisons of similar organizations to identify and recommend potential improvements in productivity. An example of such a case is described in Exhibit 4.4.

4.50 These results are consistent with the expectations noted earlier of the federal government's departmental senior managers in relation to the role and function of internal audit. While there is

Exhibit 4.4

**Effective Use of Benchmarking
in Internal Audit Reports**

A federal agency was looking for ways of reducing its administrative costs in regional offices. In this instance, senior management asked the agency's internal auditors to examine the issue. The auditors used a technique called "benchmarking", which compares performance between similar operations. They collected workload and resource information on administrative activities in each region, and determined that costs per client served varied by up to almost 100 percent among regions. Based on this analysis, they recommended a baseline standard for administrative costs in all offices.

The auditors also identified a number of "best practices", or innovations developed by individual regional offices to increase productivity, which could be used by all.

This is an example of how effective internal audit work can assist an organization to enhance productivity.

considerable coverage of financial and administrative systems, there is only limited coverage of issues related to efficiency and achievement of operational objectives. In the private sector, senior managers expect internal audit to assess issues related to operational efficiency and the achievement of operational goals.

4.51 We compared the results of our above-noted analysis of internal audit coverage in the Canadian federal government with the benchmark comparisons reported in the Institute of Internal Auditors (IIA) Global Audit Information Network. The results of this comparison, which are presented in Exhibit 4.5, indicate that internal audit within the federal government is comparable to the IIA database in terms of the amount of work done in evaluating internal control systems and assessing compliance with applicable authorities. However, internal audit within the federal government generally reports much less often on issues related to operational efficiency or achieving established operational goals and objectives.

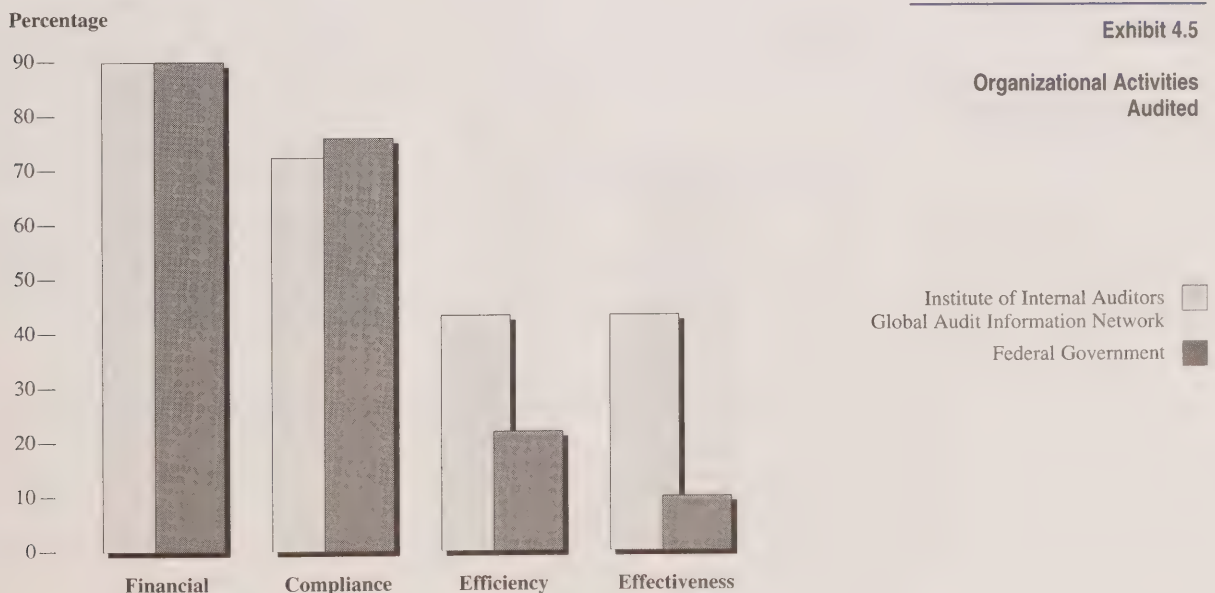
4.52 It is possible that the cause of the relatively infrequent review of goal achievement by government internal auditors is the absence of goals and objectives against which to measure and report.

Measuring the Performance of Internal Audit

4.53 In examining this area, we assessed the extent to which departments were using appropriate methods and techniques for measuring the effectiveness of internal audit—that is, its contribution to improving the way a department operates.

4.54 In 1993, we noted that virtually no internal audit group in government had a mechanism for measuring its performance on a continuing basis. This situation contrasted sharply with the performance measurement activities of the leading internal audit groups we identified in our 1993 study of best audit practices, *Internal Audit in a Changing Management Culture*.

4.55 In response to our 1993 Report chapter, a committee with departmental



Departmental internal audit units have made some progress since 1993 in measuring their performance.

and Treasury Board Secretariat representation developed and proposed various ways of measuring internal audit's performance. We found that departmental internal audit units have made some progress since 1993 in measuring their performance; approximately half of the units now measure their performance in some way, most frequently through the use of customer satisfaction surveys. Using the results of data collected during our audit, we compared the frequency of use of such surveys by Canadian government departments with that of participants in the Institute of Internal Auditors Global Audit Information Network. The results of this comparison, which are reflected in Exhibit 4.6, indicate a higher proportion of GAIN participants who use formal performance measurement techniques.

4.56 We have concluded that work remains to be done at the departmental level before all departments can obtain the benefits of complete and reliable information on internal audit's performance, but progress is evident. We have also concluded that much remains to

be done at the central agency level. We found that the Treasury Board Secretariat has not reviewed either the departmental implementation of its audit policy and standards or the effectiveness of internal audit.

4.57 As was true in 1993, the Treasury Board Secretariat still needs to carry out or facilitate periodic quality assurance reviews to obtain information on the performance of the various internal audit groups and to assess the appropriateness of its standards and internal audit policy.

The Need for More Treasury Board Leadership Remains

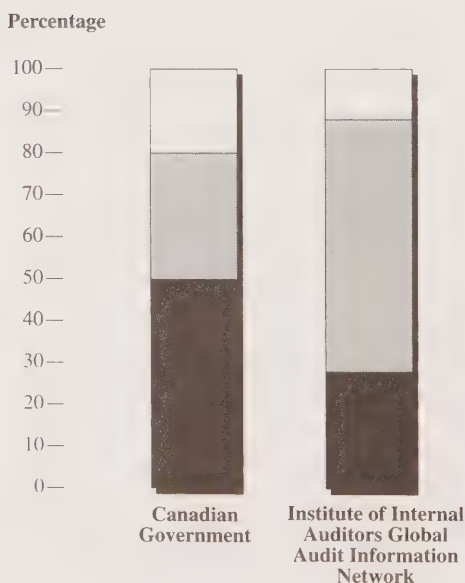
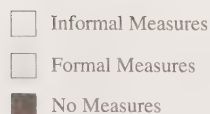
4.58 Our 1993 Report on internal audit noted major concerns with the then Office of the Comptroller General's leadership for the internal audit function.

4.59 The Treasury Board Secretariat reports that it has adopted an approach to facilitate the implementation of the Review Policy that is based on ongoing communication with departmental internal groups. Such activities include:

- establishment of an advisory group of heads of review, designed to address issues of community-wide concern;
- establishment of working groups to focus on such issues as the audit of information technology and means for measuring the performance of internal audit;
- support for the Review Network, a group established to provide a means for sharing information and initiating projects of community-wide interest;
- the preparation of the report, *Strengthening Government Review*, to describe how government is managing, using and strengthening review; and
- in preparing the Treasury Board President's Report on *Strengthening Government Review*, a request for deputy

Exhibit 4.6

Use of Customer Satisfaction Surveys to Measure Internal Audit Performance



heads to provide to the Secretariat information on how they managed the Review Policy within their departments.

4.60 We found that very little progress has been made since 1993 in the following areas:

- The Treasury Board Secretariat has not established effective mechanisms for assessing either the extent to which the objectives of the internal audit policy and standards are being achieved or whether departments and agencies have effective internal audit functions. The Treasury Board Secretariat has not acted to establish, co-ordinate or direct quality assurance reviews of internal auditing in departments and agencies.
- The Treasury Board Secretariat has done little work with senior departmental managers to define, develop and implement effective internal auditing.
- The need remains for effective mechanisms to identify and assess government-wide areas of risk.
- Departmental internal audit managers continue to see a need for more functional leadership by Treasury Board Secretariat.

4.61 In our view, the Treasury Board Secretariat needs to concentrate its efforts on communicating with deputy ministers about the role of internal audit and how it can be used more effectively, as well as on assessing the effectiveness of internal audit in departments. To carry out these two tasks effectively, the Treasury Board Secretariat must obtain and use staff who have extensive and recent experience in internal auditing.

The Use of Internal Audit Results

4.62 If internal audits are to be effective, they must produce results that help departments improve their operations. As part of our follow-up, we

examined the extent to which departments implemented audit recommendations in a sample of seven departments by surveying departmental managers to whom audit recommendations had been addressed.

4.63 Departmental managers reported that approximately 60 percent of the sample of internal audit recommendations had been implemented. In the remaining 40 percent, almost half of the recommendations were not implemented due to changes in circumstances, such as reorganization or amalgamation of government departments or other events that resulted in the responsible managers no longer considering the recommendations appropriate. In the remaining cases, approximately 20 percent of the total, no action had been taken on the recommendations, for reasons we were unable to determine.

4.64 According to Treasury Board's Internal Audit Standards, departmental internal audit groups are to determine and report how managers have responded to reported audit findings. Although most departments do carry out some form of follow-up, some do not, or do so only at the request of departmental managers. In these cases, there is no mechanism for regularly informing deputy heads on how the department has dealt with internal audit findings.

Concerns over the Review Policy

4.65 The biggest single change since 1993 that has affected internal audit has been Treasury Board's Review Policy. This new policy maintains the previous requirement for internal audits of government programs and operations in all departments and agencies. It also designates the deputy head as the person principally accountable for carrying out the policy. The main changes from the previous (1992) policy are to include

The Review Policy is not clear on the role that internal audit is expected to play.

within the concept of review the efforts and practices established by individual line managers for assessing the operations, programs and policies that they manage. As well, the new policy establishes an enhanced requirement to make information from all reviews more readily available to the public.

4.66 In making these changes, the Review Policy has altered the traditional understanding of the concept of review. Traditionally, review has referred to the professions of internal auditing and program evaluation. While internal audit and program evaluation are different management tools, each having its own objectives, they are both characterized by their objectivity and independence from the operations, programs or policies that they are assessing. Both are also conducted in accordance with recognized, established standards.

4.67 Clearly, management's own efforts to establish goals and objectives and to measure and report on their accomplishment are important and fundamental to good management. However, the inclusion of traditional management activities within the concept of review does not recognize the basic distinction between management and the independent assessment functions of internal audit and program evaluation.

4.68 The impact of this lack of clarity within the policy framework is illustrated in the President's Report on *Strengthening Government Review*. This report provides a list of completed audits, evaluations and management-led reviews, all of which are described as coverage of federal programs and policies. There is no distinction between quality and degree of assurance provided from the results of management's own efforts to measure and report on its performance and the assurance provided by the independent

and objective reports of internal audit and program evaluation.

4.69 The Review Policy is not clear on the role that internal audit is expected to play. It variously describes audit's role as follows:

- "independent and professional advice and assurances on the performance of the management framework...." related to cost effectiveness of program delivery and internal operations, the economy, efficiency, and protection of resources, information integrity and compliance with statutes and policies;
- "...whether the management framework is well designed and is working as intended," and whether program delivery activities and internal operations are carried out cost effectively; and
- accomplishment of established objectives and goals for operations.

4.70 In other parts of the Review Policy, the definition of review activities, including internal audit, is different: the key issues to be reviewed are "success", "cost effectiveness" and "relevance". Further on in the policy, there is reference to another 12 "attributes of effectiveness", which are suggested as guidelines for conveying a fair and complete picture of performance.

4.71 The net result of these differing statements is that, at the most fundamental level, the new policy has introduced confusion as to what internal audit should be doing. Should managers expect that auditors will provide information on the extent of operational effectiveness in the department, as required by the Treasury Board Internal Audit Standards? Or is this issue to be addressed elsewhere, since it is not part of the internal audit role defined in the policy statement? Accordingly, the Treasury Board needs to clarify the understanding of internal audit in the federal government.

Access to Information Affects Internal Auditing

4.72 Nearly all internal audit managers with whom we met indicated that departmental internal auditing is affected by the laws and policy relating to access to information. The requirement to make the results of audit work available to the public affects the timing of audit work, the issues addressed and the reporting of the results. Government departments, like all organizations, are not anxious to make their bad news public. Access, however, is not an issue that arises for non-government internal auditors because there is no legislated right of public access to private sector internal audits. We noted that the Treasury Board Secretariat has recently initiated a study to review the effects of openness on internal audit.

will increase substantially the probability that internal audits will deal with important issues, and bring the greatest benefits to organizations.

4.76 The federal government should direct efforts to achieving the following characteristics associated with effective internal audit:

- a deputy head of the department or agency who, in balancing the many priorities that he or she faces, is supportive of internal audit and demonstrates that support through a clear, articulated, personal point of view on the role and benefits of internal audit; and who:

- maintains regular and frequent communication with the head of internal audit;

- communicates to departmental managers the role of internal audit as an independent source of information and improvement; and

- follows up on the results and recommendations from audits;

- direct reporting of the departmental internal audit unit to the deputy head;

- audit methodology that provides selective, risk-based coverage and focusses on areas critical to departmental success;

- a clear mandate or charter for departmental internal auditing that provides for the independence of internal audit consistent with internal audit standards;

- expertise in the use, control and auditability of the organization's technology; and

- a means of measuring internal audit's effectiveness as a basis for identifying and assessing improvements to internal auditing.

Conclusions and Recommendations

4.73 Internal audit is a fundamental management tool that can provide senior management with assurances about the efficiency and effectiveness of key financial, administrative and operational activities and departmental practices, along with suggestions for improvement.

4.74 In 1993, we found a great deal of variability in the effectiveness of internal audit in federal government departments and agencies. The overall situation remains essentially unchanged today. Although some departments have improved, others appear to be less effective.

4.75 We have identified a number of factors that are common to effective internal audit units in the federal government. Taken together, addressing the factors listed in our recommendations

4.77 In order to emphasize the role and independence of internal audit, the federal government should implement the private sector practice of appointing members who are not public servants to its departmental audit committees.

4.78 An essential first step to achieving and communicating accomplishments against stated policy objectives is a clearly articulated policy framework. In this respect, Treasury Board Secretariat, in concert with key stakeholders, should initiate efforts to clarify the role of internal audit. The Review Policy should clearly recognize the distinction between the degree of assurance provided by management-led reviews and that provided by the independent and objective analysis of internal audit.

Treasury Board Secretariat's response:
We agree that strong internal audit is an important management tool within the spectrum of review. Good information, which can come from internal audit, does help to deliver quality and cost-effective services to Canadians. Investing resources to obtain this information must receive the full support of deputy ministers and other senior managers.

With reduced resources and dramatic changes in the functions and structures of government, public servants are learning how to better use the resources and tools available to them.

Within this context, and over the past two years, the Treasury Board Secretariat has focussed on improving the information that is available on the performance of government policies, programs and operations. The availability and accessibility of such information is seen as essential in improving the accountability processes of government and in helping managers make the difficult decisions they face.

In June 1994, a new Review Policy was issued by Treasury Board. The policy promotes the availability of relevant and evidence-based information on performance. A key feature of the new policy was the recognition that there are several sources of information available to decision makers. These include information from internal audits, program evaluations and other reviews.

As an integral part of the Review Policy package, a revised policy on internal audit was approved. This policy clearly sets out the elements that are required for an effective internal audit function in government; the policy demonstrates the government's commitment to maintaining strong internal audit.

The new policy package, which also included a policy on evaluation, was intended to allow departments to select the right review tool for the job. These changes complement the new Expenditure Management System and departmental business plans, as well as the government's initiatives to improve reporting to Parliament and to make greater use of information technology to streamline administration and improve delivery of service. Readers of this chapter should consider what is being reported about internal audit in the context of the set of management reforms being put in place.

In November 1995, the President of the Treasury Board tabled in Parliament his first annual report on review, entitled Strengthening Government Review. The preparation of this report involved monitoring departmental audit, evaluation and review activity and was the first report to Parliament, by the government, to describe its progress in encouraging the development and use of performance information.

The approach of the Treasury Board Secretariat to monitoring focusses on the products and results of reviews, rather than the more process-oriented approach suggested in this chapter. The

results-oriented approach considers all sources of information based on a variety of interactions with departments and recognizes the strengths and weaknesses of the various tools available.

Substantial progress has been made over the last two years in promoting an understanding of the new Review Policy, which promotes the principles of results-based management, effective control and clear accountability. Our framework reflects public service ethics and values. There have been improvements in the information that is available to managers, Parliament and the public. Further progress is needed. A specific action plan was set out in Strengthening Government Review and the government is committed to the initiatives in this action plan.

With reference to the 1993 audit, we have made significant progress, specifically in the audit of information technology systems; in developing an approach for the measurement of performance of internal audit units in departments; in communication of internal audit best practices; and in improving information to Parliament on audit work that is completed, under way and planned.

In the coming year we will work with internal auditors and the Auditor General as well as the other professionals in the review community to provide better guidance on the range of tools within the spectrum of review. This guidance will include, as part of our approach to successful review, the contribution of internal audit in improving the accountability and management of government operations.



About the Audit

Background

In 1993, we reported the results of our audit of internal auditing in the Government of Canada. At that time, we concluded that the quality of internal auditing varied considerably from department to department. We noted the importance of senior management support and that internal auditing was not gaining ground in closing the gap between what might reasonably be expected from the function and its actual performance. We also noted that it was too early to assess a number of initiatives that the then Office of the Comptroller General had taken to improve internal audit's performance.

Objectives

The objective of our current audit was to determine the extent to which departments and agencies have responded to the observations and recommendations set out in our 1993 chapter in five areas:

- the level of management support provided to internal audit;
- audit coverage, that is, the departmental operations that internal audit examined;
- how internal audit groups were measuring their own performance and contribution to the organization;
- the extent to which the Treasury Board Secretariat was fulfilling its role as functional leader of the internal audit community — specifically by monitoring the effectiveness of government internal auditing policy, and assessing the effectiveness of the internal audit standards and the code of ethics in achieving stated policy objectives — as required by the Treasury Board Review Policy; and
- the extent to which senior management was acting on the recommendations in internal audit reports.

Scope and Approach

As part of our audit we conducted a survey of the costs and practices associated with internal audit in all departments and agencies. We then compared the results of this survey to the Institute of Internal Auditors Global Audit Information Network (GAIN), a database that compares internal audit costs and practices across a broad range of internal audit groups, in both the private and various public sectors.

We reviewed in greater detail the internal audit units of seven departments that account for 61 percent of person-years working in internal auditing and approximately 48 percent of the government's 1995–96 internal audit budget. The departments included in our detailed review were:

- Canadian International Development Agency
- Correctional Service Canada
- Fisheries and Oceans Canada
- Human Resources Development Canada
- Public Works and Government Services Canada

- Revenue Canada
- Treasury Board Secretariat.

To obtain a government-wide perspective on internal audit coverage and the types of observations, conclusions and recommendations being reported by internal audit groups, we also reviewed a sample of audit reports from all government departments and agencies.

Criteria

Each section under Observations contains criteria specific to the particular topic. In more general terms, the criteria we used to assess the current state of internal audit were the Treasury Board's internal audit policy and standards for the professional practice of internal audit, which are largely based on those of the Institute of Internal Auditors.

Our criteria are also based on the study of best practices conducted by this Office as part of its 1993 government-wide audit of internal audit. The study, entitled *Internal Audit in a Changing Management Culture*, covered 40 government and private sector organizations in Canada and the United States. It showed that internal auditors were changing in response to the evolving business environment. For example, the best internal audit units were becoming involved early in the development of computer systems, devoting more attention to deciding what should be audited, and working more closely with managers.

Audit Team

Brian Brisson
Bob Cardillo
Christine Kelly
John Pritchard

For information, please contact Bruce Sloan, the responsible auditor.

Report of the Auditor General of Canada to the House of Commons – 1996

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Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 5
The Reform of Classification and Job Evaluation
in the Public Service

May 1996

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This May 1996 Report comprises 12 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 5

The Reform of Classification and Job Evaluation in the Public Service

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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The Reform of Classification and Job Evaluation in the Public Service

Assistant Auditor General: Maria Barrados
Responsible Auditor: Jacques Goyer

Main Points

5.1 The reform of classification and job evaluation was one of the important systemic changes associated with public service renewal. Because of important links with other systems such as labour relations and pay administration, classification and job evaluation have been considered the “cornerstone” of human resource management in the public service.

5.2 In response to recommendations for change, the Treasury Board Secretariat undertook to develop a single job evaluation plan to replace the some 70 currently in use, and to reduce significantly the number of occupational groups and sub-groups into which jobs are classified. Given the difficult context, this was quite a challenging task.

5.3 Based on our assessment of the June 1995 version of the *Universal Classification Standard*, our audit concluded that, after some six years, the challenge posed by the reform has been only partially met:

- The new job evaluation plan developed by the Secretariat is a definite improvement and has many promising features, but a number of significant issues need to be addressed to ensure that it is a valid and reliable tool, capable of evaluating all jobs in the public service while meeting requirements for pay equity that stem from the *Canadian Human Rights Act*.
- Opportunities exist to simplify further and/or to reduce the costs of classification and job evaluation and some of the related systems and practices, such as pay administration.

5.4 While the Treasury Board Secretariat has undertaken the reform with a commitment to “cost neutrality”, we found that the cost and benefits of the reform were not known with any degree of precision.

5.5 At the conclusion of the audit the Secretariat was taking a number of important measures to address issues identified by the audit. The Standard has potential and can be made to work. Success will depend, however, on the willingness and ability of the stakeholders to work together to achieve the objectives of the reform at a reasonable cost to the taxpayer.

Introduction

5.6 In 1989, the government launched *Public Service 2000*, an initiative to renew the public service. Its aim was to achieve a culture more oriented toward serving clients and delivering results. The government wanted to simplify the employment and personnel management regime so that the resources devoted to these activities could be redirected toward better service. A task force headed by a deputy minister and composed of senior managers was set up to review classification and job evaluation in the public service.

The Current Classification and Job Evaluation Systems

5.7 Classification. In the public service, jobs are currently classified into 72 occupational groups and 106 sub-groups, and into a varying number of levels within these groups. Exhibit 5.1 provides examples. The current occupational group structure was created in the late 1960s, mainly to serve as a basis for bargaining units. The structure has remained essentially unchanged and continues to be the main framework for negotiating pay. As of July 1990, there were 78 bargaining units. As a result of these complex occupational group and bargaining structures, there are, according to Treasury Board Secretariat, currently some 840 pay rates and some 70,000 rules governing pay and allowances in the public service. This impacts heavily on the complexity and cost of related administrative systems. In 1994 we reported that, partly due to its complexity, the annual administrative cost of the federal pay system per employee was some 1.5 times higher than in provincial governments. In October 1995 we reported that the project initiated to improve the pay process through better

use of technology was cancelled after more than \$60 million of the estimated \$120 million total cost of this project had been spent. The complexities of the pay system were a significant factor in the difficulties encountered in that project.

5.8 Job evaluation. Job evaluation is the process used to determine the relative value of jobs, based on content and requirements. Jobs are evaluated using factors and rating guides (the job evaluation plan) and reference (benchmark) positions contained in a “classification standard”. The resulting evaluations are used to determine which jobs within the organization should receive the same rate of pay and which should be paid at different rates. Approximately 70 different classification standards are used in the public service.

A complex and lengthy process

5.9 In the public service, classification and job evaluation are intertwined. The process is both complex and lengthy, and thus costly. It requires several steps, including:

- gathering and reviewing information about a job;
- writing a detailed and thus lengthy job description with appropriate organizational charts that accurately depict the job and its relation to other jobs in the organization;
- determining the occupational group of the job by assessing how the job description fits, or does not fit, globally with definitions contained in various classification standards;
- evaluating the requirements of the job, using the job evaluation plan and the reference positions (benchmarks) contained in the applicable classification standard to determine the value of the job, usually expressed in points; and then
- determining the level of the job by comparing its point value to the

The government wanted to simplify the employment and personnel management regime so that the resources devoted to these activities could be redirected toward better service.

In the public service, classification and job evaluation are intertwined. The process is both complex and lengthy, and thus costly

The current classification and job evaluation systems cannot be used effectively to achieve or maintain pay equity.

predetermined range of points established for each of the levels in the occupational group. Exhibit 5.2 illustrates the factors currently used to evaluate positions in the Secretary sub-group of the Secretarial, Stenographic and Typing occupational group and the maximum number of points allocated to each. It also shows the point ranges set for each level of the sub-group. Exhibit 5.3 presents the rating guide used to evaluate the factor “consequences of error” for the Secretary sub-group.

Pay equity requirements: more complexity

5.10 The concept of “equal pay for work of equal value” has had the force of law in organizations under federal jurisdiction — including the public service — since 1978. Such organizations

must now be able to compare the value of jobs in predominantly female groups with jobs in predominantly male groups, using a common standard and taking into account four factors specified in section 11 of the *Canadian Human Rights Act*: responsibilities, skills, effort and working conditions.

5.11 Developed in the late 1960s, the current classification and job evaluation plans were not designed to compare the value of jobs in one occupational group with those in another group. In addition, current job evaluation plans do not always include the factors specified in the Act. The current classification and job evaluation systems thus cannot be used effectively to achieve or maintain pay equity. Several complaints have been filed

Exhibit 5.1

Examples of Current Occupational Groups and Sub-Groups with the Number of Levels for Each

Group and Sub-Groups	Number of Levels
Secretarial, Stenographic, Typing (ST)	
Typing (ST-TYP)	2
Stenographer (ST-STX)	2
Office-Composing – Equipment Operation (ST-OCE)	3
Court Reporter (ST-COR)	2
Secretary (ST-SCY)	4
Clerical and Regulatory (CR)	7
Program Administration (PM)	6
Mediation/Conciliation Officer (PM-MCO)	3
Administrative Services (AS)	8
Education (ED)	
Language Teacher (ED-LAT)	2
Elementary and Secondary (ED-EST)	Experience – Education grid
Education Services (ED-EDS)	5
Education Support (EU)	
Language Instructor (EU-LA)	1
Physical Education Instructor (EU-PEL)	2
Teacher's Aid (EU-TEA)	*

* No levels

Source: Report of the Task Force on Classification and Occupational Group Structures, July 1990

with the Human Rights Commission in relation to pay equity issues, and a Human Rights Tribunal has ruled that some practices are discriminatory.

5.12 To deal with pay equity issues, complaints and rulings, the Treasury Board Secretariat has had to resort to using an additional, separate "common" job evaluation plan and a cumbersome system of equalization payments to female-predominant groups. This has added a significant layer of complexity to already complex job evaluation and pay systems.

Why are classification and job evaluation important?

5.13 There are very important and complex links between the classification of a position and other human resource management decisions or systems, such as

staffing, collective bargaining and pay administration. For these reasons, classification and job evaluation are considered the "cornerstone" of human resource management in the public service. For example, because appointments are usually made "to a position", reclassifying a position to a higher level leads to initiating a staffing process to find a candidate or promote the incumbent. The resulting appointment will trigger a pay transaction. Exclusion from, or membership in, a bargaining unit will be also determined by the occupational group and level of the position and the duties performed by the incumbent. Because of these links, any change to the current classification and job evaluation systems, such as simplification, can have significant multiplying effects. The reform of classification and job evaluation was considered by many as one of the

There are very important and complex links between the classification of a position and other human resource management decisions or systems.

Factors	Weights
Knowledge	
Education	150
Experience	260
	410
Complexity	250
Consequence of Error	100
Contacts	200
Supervision	40
	<u>1,000</u> points

Exhibit 5.2

Factors Used to Evaluate Positions in the Secretary Sub-Group with Applicable Weights and Point Boundaries

Point Boundaries	
Levels	Points
ST-SCY 1	265-400
ST-SCY 2	401-550
ST-SCY 3	551-700
ST-SCY 4	701-1000

Source: Classification standard for the Secretarial, Stenographic, Typing Occupational Group, Treasury Board Secretariat, 1976

In 1990, we concluded that a fundamental change was necessary.

important systemic changes resulting from *Public Service 2000*. Exhibit 5.4 describes in more detail some of the links between classification and job evaluation and other aspects of human resource management in the public service.

Previous Audits of Classification and Job Evaluation

5.14 In our 1983 Report chapter titled “Constraints to Productive Management”, we noted that managers found it difficult and time-consuming to apply the current job evaluation plans. They felt it hampered productive management. In 1984 we reported that job evaluation in the public service was subject to great pressures at a time when the overall size of the public service was being restrained.

We also noted significant deficiencies in the way the system was managed. In our follow-up report in 1986 we expressed concerns about the pace of Treasury Board Secretariat’s review of a significant number of outdated classification standards. In 1990, another follow-up noted the relatively high number of occupational groups in certain departments and agencies. We reported that six departments had at least 40 occupational groups, and that one of them had 56. We concluded that a fundamental change was necessary. In our 1994 Report chapter “Management of Scientific Personnel”, we recommended that consideration be given to creating a single occupational group for employees doing scientific research, to simplify the

Exhibit 5.3

Examples of a Rating Guide for the Factor “Consequences of Error” for the Secretary Sub-Group

Consequences of Error and Degree	Benchmark Position	Points
Errors would be minor in nature due to the type of work performed and may cause minimal loss of time for correction, or may cause slight annoyance or inconvenience. A	III-15.2* III-16.2 III-19.3	35
Errors would have moderate consequences, e.g. may result in some loss of time on the part of several employees for correction, may cause inaccuracies in records or reports and have a limited effect on activities based on these reports, may result in minor loss of goodwill, may be embarrassing to the individual for whom secretarial services are being provided or to others inside or outside the public service. B	III-20.3 III-22.3 III-24.3 III-25.3	70
Errors would have serious consequences, e.g. may cause inaccuracies in reports or records and result in faulty information upon which decisions are made, may cause substantial delay or considerable loss of work time or productivity, may have serious adverse effects on relationships with the public, may cause considerable loss of goodwill indicated by a series of complaints, may be embarrassing to the Department or to the government generally. C	III-26.4 III-27.3	100

* Refers to specific benchmark positions also contained in the “classification standard”

Source: Classification standard for the Secretarial, Stenographic, Typing Occupational Group, Treasury Board Secretariat, 1976

occupational group structure in research establishments.

Proposals for Reform: Significant Change

5.15 The task force set up under *Public Service 2000* was charged to examine the occupational group structure and the administration of job evaluation in the public service. In its July 1990 Report, the task force recognized that both were

cumbersome, too complex, very time-consuming and too costly to operate, to say nothing of their impact on the costs of other human resource management systems. According to the Treasury Board Secretariat, in 1989–90 alone there were some 216,000 classification actions, more than half of them involving major changes. Yet it has been established that the total number of staffed “full-time permanent” positions in the public service at that time was only 181,355. Partly due

The task force set up under *Public Service 2000* was charged to examine the occupational group structure and the administration of job evaluation in the public service.

Exhibit 5.4

Some Key Links between
Classification and Job
Evaluation and Other Human
Resource Systems

Staffing

The classification of an individual employee is dependent on the level of the position.

Statements of qualification used in staffing are derived from job descriptions. Any significant change in the job will necessitate a change in the selection profile.

Reclassification of a position leads to a formal staffing action to find a candidate or promote the incumbent.

Deployments (transfers without appeal rights) can be made only if the classification and level of the employee corresponds to the classification and level of the position he/she is moving to.

Labour Relations

Bargaining units are established on the basis of the occupational group structure. There are currently some 80 bargaining units.

Collective agreements (salary and working conditions) are negotiated on an occupational group basis.

Membership in a bargaining unit is determined by the classification and level of the individual and the duties performed.

The abolition of a position can result in the employee being declared surplus and reassigned or eventually laid off.

Pay

There is a pay rate or salary scale for each level within an occupational group or within a sub-group. There are also annual increments embedded in each salary scale. There are currently some 840 rates of pay and an estimated 70,000 rules governing pay and allowances in the public service.

Collective agreements expire or come into effect at different times, leading to ongoing collective bargaining.

Because some current job evaluation practices have been judged discriminatory, equalization payments have been granted to certain employees.

Official Languages

Language requirements must be established for every position created.

In many instances incumbents need to be tested or re-tested to determine if they meet the requirements. Change in responsibilities or reclassification necessitates a re-examination of the requirements.

The task force concluded that classification and job evaluation should be greatly simplified.

to the restructuring of departments, the Treasury Board Secretariat could not provide us with more recent information on the number of classification transactions over the last five years.

5.16 The task force also pointed out that the classification and job evaluation systems posed many obstacles to redeployment of resources, and that changes in technology and work organization had made these systems obsolete in many cases. The task force noted that the current systems were highly susceptible to manipulation.

5.17 The task force concluded that classification and job evaluation should be greatly simplified, and recommended that the current 72 occupational groups and 106 sub-groups be reduced to 23 and 8 respectively. It also recommended amalgamating 15 occupational groups into a single group, the General Services group (GE), which would include some 125,000 public servants. The task force recommended that job evaluation and its administration be simplified by developing a single job evaluation plan. It suggested that job descriptions be no more than three pages long and in a computerized format wherever possible.

Exhibit 5.5 presents the guiding principles that the task force proposed for the new job evaluation plan.

5.18 In the November 1990 White Paper *Public Service 2000: The Renewal of the Public Service of Canada*, the government endorsed many of the task force recommendations. In January 1991, Treasury Board Secretariat started to implement them with a commitment to “cost-neutrality”, which was never clearly defined.

Undertaking the Reform: A Formidable Challenge

5.19 Following up on the recommendations of the task force and the White Paper, the Treasury Board Secretariat decided to develop, within a self-imposed timeframe of 24 months, a totally new job evaluation plan that would be capable of evaluating the job content of over 200,000 positions, widely different in nature and scope. The plan had to be suitable for use in more than 50 departments and agencies whose size and activities vary greatly. Moreover, reducing the number of occupational groups meant dealing with several unions, some of which could eventually disappear with the reduction in the number of occupational groups — all of this at a time when labour relations were difficult, salaries had been frozen and the government and unions had been in litigation for several years over pay equity. This was quite a challenging task.

5.20 Since 1991, the Treasury Board Secretariat, in collaboration with departments, has developed a new job evaluation system, the *Universal Classification Standard*. The Standard is intended to replace some 70 current classification standards, using a single approach to job evaluation.

Exhibit 5.5

Guiding Principles for a New Classification and Job Evaluation System, as Proposed by the Task Force

1. Provide a productive working environment.
2. Be simple and transparent.
3. Be flexible.
4. Stimulate career progression.
5. Provide equal pay for work of equal value.
6. Establish better external relativities.
7. Provide fairer internal relativities.
8. Permit broader spans of control with fewer levels.
9. Be suitable for management ownership.

Source: Public Service 2000: Report of the Task Force on Classification and Occupational Group Structures, July 1990

5.21 Major changes, at times unexpected, interfered with the project — such as the June 1993 decision to restructure departments, and the downsizing of the public service by some 45,000 positions over three years due to changes in government policies, programs and service delivery.

5.22 When we began our audit, in the fall of 1993, a “final draft” version of the *Universal Classification Standard* had been issued. By then, according to the Secretariat, some 42,000 positions had been evaluated by departments for eventual inclusion in the new General Services (GE) group. The Secretariat had anticipated that implementing the Standard across the public service would be spread over five years. During our audit, new versions of the *Universal Classification Standard* were issued and implementation was delayed several times. At the conclusion of our audit the Standard had not been submitted to Treasury Board ministers for approval. Exhibit 5.6 provides a schematic description of the Standard and its key characteristics as they appeared in the most recent version (June 1995) issued by Treasury Board Secretariat prior to the conclusion of the audit.

Why Audit Before Implementation?

5.23 We decided to conduct our audit before the new system was fully implemented because our experience with job classification and evaluation has shown that good design is essential to a new job evaluation plan: if significant problems in design are discovered after implementation, it is difficult to take effective corrective measures. Moreover, a number of concerns had been expressed by experts, unions and the Canadian

Human Rights Commission about the design and development of the Standard.

5.24 Furthermore, several million dollars had already been spent by the Secretariat and departments to develop and test the Standard. Another reason for auditing before implementation was that, because classification and job evaluation are central to human resource management in the public service, implementing the Standard was likely to have a major impact on the payroll, labour relations, pay administration and many other human resource systems as well as efficiency of program delivery.

5.25 **Audit objective.** Our audit was aimed at assessing whether the *Universal Classification Standard* would be capable of evaluating all jobs in the public service (that is, universal) as well as ensuring that work performed by women would be made visible and valued in the same manner as men’s work to eliminate possible systemic bias (that is, gender-neutral). Another objective was to determine whether classification and job evaluation with the Standard and the occupational group structure would be simpler. Finally, we wanted to assess how the Treasury Board Secretariat had taken into account the cost/benefit factor.

5.26 **Audit scope and approach.** Our audit examined the way Treasury Board Secretariat managed the design, development, testing and validation of the new job evaluation plan and applied it to a number of positions using the June 1995 or earlier versions of the Standard. We also looked at the work done for the task force or by the Secretariat to simplify the occupational group structure. We interviewed senior officials and human resource managers in a number of departments, and examined how other organizations in the public and the private sectors have simplified their occupational

We decided to conduct our audit before the new system was fully implemented because our experience with job classification and evaluation has shown that good design is essential to a new job evaluation plan.

Exhibit 5.6

Schematic Description of the Universal Classification Standard and Its Key Characteristics

Universal Classification Standard			
Its components: 4 Factors 16 Elements Degree Definitions Degree Illustrations Notes to Evaluators			
FACTOR	CHRA*	ELEMENT	MAXIMUM POINTS
Service Delivery	Effort	Interaction	83
	Responsibility	Influence	656
	Effort	Thinking Challenge	480
	Effort	Physical Demands	72
Care and Responsibility	Responsibility	Work of Others	205
	Responsibility	Care of Individuals	102
	Responsibility	Financial Resources	152
	Responsibility	Technical Resources	71
Working Conditions	Working Conditions	Environment	76
		Risk to Health	71
Skills & Knowledge	Skills	Context	264
	Skills	Acts & Regulations	163
	Skills	Theories & Principles	534
	Skills	Methods, Techniques & Practices	327
	Skills	Communication	172
	Skills	Physical Dexterity	72
Total Points			3500
*Relationship with the four factors specified in the <i>Canadian Human Rights Act</i> .			
Notes to Evaluators			
Specific instructions and guidelines on how each element is to be interpreted and applied and what characteristics of the work are or are not considered.			
Degree Definitions			
Each of the 16 evaluation elements has a number of degrees. These have been defined on a rating scale to represent a progression from a minimum to a maximum value.			
Degree Illustrations			
To assist evaluators in determining the appropriate degree of an element, each degree is exemplified by a number of degree illustrations. The degree illustrations have been selected from a variety of occupations to provide examples of the proper application of the degree.			

Source: Treasury Board Secretariat. The Universal Classification Standard (June 1995 version)

group structure and job evaluation systems. We also interviewed and consulted experts in compensation management. Details about the conduct of the audit are presented at the end of the chapter.

5.27 When we began our audit, the government was committed to a policy of renewing the public service, providing flexibility for different needs but in the context of a single public service. While it can be argued that other organizational forms are possible — including decentralized human resource management — the audit was conducted against that policy.

Observations and Recommendations

The Status Quo Is Unacceptable

5.28 There is a consensus in departments and among Treasury Board Secretariat officials that the current classification and job evaluation systems are both obsolete and too costly, given the current pressures for fiscal restraint, more efficient service delivery and downsizing. To them, the status quo is unacceptable. We concur with this assessment.

5.29 We found, however, that while departments agree with the guiding principles identified by the task force for a new job evaluation system, they emphasize that any new system must allow for flexibility because of the significant variations in the nature and operations of the programs and services they provide. Departments also believe that current and future budget reductions and ongoing restraint require that the design of the new system, its implementation and its ongoing management entail the lowest possible

cost in labour, time and dollars, as well as in human terms.

Job Evaluation: A Significant Improvement but Not Yet Meeting the Mark

The initial timetable for the project was unrealistic

5.30 Given the context, and the technical difficulties associated with the project, Treasury Board Secretariat's initial two-year timetable to develop a totally new job evaluation system as complex as the Standard was clearly too optimistic. Because of the initial deadline, the debate that should have taken place with numerous stakeholders on key issues did not take place. Issues conflicting with the deadline were ignored, although there were clear signs that significant repercussions lay ahead. In particular, because of the tight deadline, the thorough testing necessary to assess the universality and gender neutrality of the Standard was not carried out.

Universality and gender neutrality were not assured

5.31 Treasury Board Secretariat took a number of measures to ensure universality and to reduce the risk of systemic bias against work predominantly performed by women, including:

- the development of a single job evaluation plan that will make it easier to compare the value of jobs done by women and by men;
- the incorporation into the Standard of the four factors set out in the *Canadian Human Rights Act*;
- a definition of gender neutrality that recognizes the need to identify and value properly the historical and traditional characteristics of the work of women and men;

There is a consensus in departments and among Treasury Board Secretariat officials that the current classification and job evaluation systems are both obsolete and too costly. We concur with this assessment.

In our opinion, the measures taken by the Secretariat were insufficient to conclude that the Standard could evaluate all jobs in the public service and in a gender-neutral manner.

- the selection of 16 elements capable of covering a wider range of job content in the public service; and
- extensive training of managers and human resource specialists on the new Standard and on the requirement for gender neutrality when drafting job descriptions and during the job evaluation process.

5.32 The Treasury Board Secretariat concluded, in April 1995, that it was satisfied with the universality and gender neutrality of the Standard. In our opinion, however, the measures taken by the Secretariat were insufficient to conclude that the Standard could evaluate all jobs in the public service and in a gender-neutral manner. In fact, the following evidence suggests that the version of the Standard we reviewed was neither universal nor free of gender bias.

The method of collecting information on job content needs to be strengthened

5.33 If the Standard is to be capable of evaluating all jobs in the public service, comprehensive information needs to be gathered on the full range of significant job content present in the public service. However, we found serious deficiencies in the method that Treasury Board Secretariat initially used to collect job content information for the development of the Standard. The Secretariat collected job content information on a sample of 1,000 positions throughout the public service. Although the sample seems large, the Secretariat acknowledged that it did not statistically represent the whole public service population. For example, it did not include all combinations of occupational groups, sub-groups and levels. Positions in predominantly female groups were also under-represented.

5.34 Furthermore, the information gathered on job content was not subject to

quality control to ensure that it was valid, reliable and gender-neutral. One pay equity expert consulted by Treasury Board Secretariat observed that the quality of the job content information gathered was inconsistent, varying from satisfactory and reasonable to incomplete and inaccurate. In addition, no effort was made before the first phase of the Standard's implementation to verify whether the new job description format and content could collect information on all the significant aspects of the work performed by people in either predominantly male or predominantly female occupational groups.

5.35 In spite of these deficiencies, the Secretariat used this job content information as a basis for making key decisions during the development of the Standard, particularly in choosing and defining the elements of the Standard that would serve to evaluate all jobs in the public service. This eventually led to work traditionally associated with women not being sufficiently visible, and to problems in applying the Standard to certain jobs.

5.36 At the conclusion of our audit, the Treasury Board Secretariat had undertaken a thorough review of the literature to identify overlooked job content in predominantly female groups and was committed to ensuring that the Standard would make visible all significant job content. In addition, it was developing sampling techniques as well as quality control mechanisms, with the objective of ensuring universality and gender neutrality.

The various components of the Standard had significant shortcomings

5.37 To assess the universality and gender neutrality of the Standard, one must assess whether its components

(elements, degree definitions and degree illustrations):

- are clearly defined;
- incorporate all significant content of all jobs in the public service;
- include frequently overlooked aspects of work performed by women;
- measure unique aspects of work performed, to avoid crediting the same job content more than once;
- are consistent and appropriate within each level and for all levels; and
- can properly value all significant job content found in the public service, including work performed by women.

Exhibit 5.7 illustrates the various components of the Standard for an element that was entitled “Thinking Challenge” in the version we reviewed.

5.38 Our assessment of each of these aspects using the June 1995 version of the Standard revealed that the Treasury Board Secretariat did not have the basis for asserting that the Standard was universal and gender-neutral. In particular, the version of the Standard we reviewed would, to a large extent, perpetuate gender bias in job evaluation. Unless corrective measures are taken, this could lead to numerous costly and time-consuming grievances or complaints under the *Canadian Human Rights Act* and cast doubt on the Standard’s credibility as a universal and gender-neutral job evaluation plan. We noted the following deficiencies:

- Except for a few elements, definitions were vague, broad and at times ambiguous. It was not clear what was actually being measured.
- Degree definitions aimed at providing, for each element, a rating scale representing a progression from a

minimum to a maximum value were also extremely vague and ambiguous.

- Degree illustrations intended to exemplify, for a specific element, degrees in concrete job content and to show the progression from one level to another contained the most significant deficiencies. In many cases, the criteria embedded in them were different from those in the element definition or in the degree they were supposed to illustrate. Aspects of women’s work including work at a high level were missing. Also, progression was unclear because consistency was a problem in many cases. (The Appendix provides a summary of the significant deficiencies found in the various components of the Standard.)

- Statistical tests to diagnose for systemic effects by gender revealed that six of the 16 elements of the Standard measured male and female job content equally well. The 10 remaining elements favoured the content of predominantly male jobs. Such results are indicators of potential bias.

5.39 At the conclusion of our audit the Treasury Board Secretariat was taking a number of important measures to address our concerns, such as: redefining, renaming and regrouping the elements; identifying gaps and examining the need for new elements; developing matrices and grids to discipline progression among degrees; and developing a framework to guide the review and the rewriting of degree illustrations.

The weighting of the Standard’s elements needs to be reassessed

5.40 All job evaluation plans deem some job content to be more important than other content. The weighting — that is, the percentage of points awarded to each element in a job evaluation system — is intended to establish the relative importance of each element, reflecting the organization’s objectives and values. The

At the conclusion of our audit the Treasury Board Secretariat was taking a number of important measures to address our concerns.

Exhibit 5.7

Illustration of the Various Components
of the Element "Thinking Challenge"

Service Delivery Thinking Challenge	<p>Element Definition</p> <p>This element measures the effort of the thinking challenge in terms of the complexity of the demands and outcomes associated with the work performed.</p>
Notes to Evaluators	<p>Notes to Evaluators</p> <p>In assessing this element, evaluators are to consider the variety and difficulty of the decisions to be made, problems to be solved, options to be considered and choices to be made.</p> <p>....</p>
Degree Definitions	<p>Degree 1 Limited Effort: Demands and outcomes are of limited complexity.</p> <p>Degree 2 Some Effort: Demands and outcomes are somewhat complex.</p> <p>Degree 3 Moderate Effort: Demands and outcomes are moderately complex.</p> <p>Degree 4 Significant Effort: Demands and outcomes are significantly complex.</p> <p>....</p>
Degree Illustrations	<p>Degree 1 Limited Effort: The work involves operating a photocopying machine and sequencing jobs in the order they are received, processing incoming facsimile messages and calculating monthly telephone charges.</p> <p>....</p> <p>Degree 2 Some Effort: The work involves assessing the situation and selecting and operating light and heavy equipment to maintain roads or runways in usable condition in response to weather conditions.</p> <p>....</p> <p>Degree 3 Moderate Effort: The work involves developing and adapting training plans and materials, evaluating individual students' training needs and providing additional instruction or remedial work as problems are detected.</p> <p>....</p> <p>Degree 4 Significant Effort: The work involves evaluating seed and grain qualities, analyzing the quality control process of fertilizer and pesticide manufacturers and the quality of inspection training programs, assessing mills and plants against standards to detect anomalies, analyzing complaints and reviewing corrective actions for compliance.</p> <p>....</p>

Source: Treasury Board Secretariat. The Universal Classification Standard (June 1995 version)

values themselves must be free of gender bias. Exhibit 5.6 shows the maximum possible number of points allocated to each of the 16 elements of the Standard.

5.41 To determine the importance of each element, 300 positions drawn from a sample were ranked using a method known as “whole-job-ranking”. The method consists of comparing jobs using job descriptions, to rank them on the basis of their overall global “value”.

5.42 Experts recognize that the “whole-job-ranking” method is fraught with difficulties for ensuring gender neutrality and validity, especially when applied to a large number of positions. Because it is subjective, the ranking can be influenced by a number of irrelevant factors, such as stereotyping. Evaluators are unlikely to question their preconceived opinions of the overall importance of the work, including their possible gender bias. If such a method is to be used, a significant number of safeguards must be in place to prevent or to detect bias potential. We found that the measures taken by the Secretariat were insufficient.

5.43 Although the results of the ranking exercise showed that the positions of some predominantly female groups moved up in the new hierarchy, our review of Treasury Board Secretariat’s statistical analysis of these results nevertheless suggested the presence of significant problems. For example:

- aspects of women’s work were valued unfavourably in the ranking exercise;
- implicit criteria used to evaluate jobs were very limited: in fact, a few aspects of job content alone could have served to predict the ranking of all 300 jobs; and

- there were indications that the same aspect of work was credited more than once.

5.44 In spite of evidence of significant deficiencies, the ranking results were used to develop the weighting of the elements contained in the version of the Standard we reviewed. We found that the resulting weighting was highly imbalanced. Four of the 16 elements were assigned more than 55 percent of the points; 10 elements were each assigned a value of 5 percent or less, and are therefore given negligible weight. In the version of the Standard we reviewed, the only element designed explicitly to take into account work traditionally associated with women, “Care of Individuals,” received a value of approximately 3 percent.

5.45 Overall, we found that, in the version of the Standard we reviewed, the importance given to three elements, “Influence”, “Theories and Principles” and “Thinking Challenge” — often associated with administrative/managerial work — was such that the other 13 elements would not likely affect job evaluation results to any great degree.

5.46 The imbalance in the weight of the elements limits the Standard’s ability to value all jobs in the public service properly. Furthermore, it results in the undervaluation of work performed by women. The high concentration of weights in only a few elements, the large number of elements to which no appreciable value is attributed and the low value assigned to work traditionally performed by women are due to shortcomings in the “whole-job-ranking” exercise noted earlier.

5.47 At the conclusion of our audit, the Treasury Board Secretariat was

We found that the importance given to three elements, “Influence”, “Theories and Principles” and “Thinking Challenge” — often associated with administrative/managerial work — was such that the other 13 elements would not likely affect job evaluation results to any great degree.

The Treasury Board Secretariat did not conduct a full-scale pilot project to test the universality and validity of the Standard.

planning to examine the weighting of the elements of the Standard.

Thorough testing of universality and gender neutrality is essential

5.48 Because of the self-imposed tight schedule, the Treasury Board Secretariat did not conduct a full-scale pilot project to test the universality and validity of the Standard. Instead, it conducted three limited tests at different phases of the Standard's development. In our opinion, this testing was not enough to assert that the Standard can evaluate all positions in the public service.

5.49 For example, during the development phase, a sample of about 800 positions was used to assess the completeness and applicability of the Standard. Statistical tests for universality conducted by the Treasury Board Secretariat indicated problems in applying the Standard to particular occupational groups, such as scientific personnel or professionals. No analysis could be done for positions in many other occupational sub-groups because samples were too small. Nor could statistical tests be conducted for gender neutrality because the sample of positions from predominantly female groups was inadequate.

5.50 A second test began with the application of the Standard to some 35,500 positions (about 25 percent) of the 125,000 positions to be included in the new General Services group (GE). The objective was to verify whether the weight given to each element was appropriate and to determine the number of levels this occupational group could have. Although this was to be a test of the Standard, the Treasury Board Secretariat did not consider it appropriate or necessary to establish adequate quality control mechanisms to ensure that all departments

were conducting the test properly. We found significant deficiencies in this test. For instance:

- No guidelines were issued to ensure that departments would use a valid and the same sampling method.

- While testing was being carried out, the Secretariat made the weighting scheme available to departments upon request. Usually, the weights for the elements of a new job evaluation system are not disclosed at that stage to ensure that raters are not unduly influenced by the rating points instead of by the job content.

- "Jobbing" was used by many departments. "Jobbing" means describing and evaluating one position and automatically giving the same value to similar positions without necessarily evaluating them individually. While perfectly acceptable and even desirable at the implementation stage, "jobbing" is not advisable for testing purposes because it can seriously distort overall results.

- Although the Treasury Board Secretariat reported at the end of this test that some 35,500 positions had been evaluated, we found that Secretariat officials did not know how many and which individual positions had really been evaluated. Nor did they know the results of the evaluation for the specific positions actually evaluated. One department, using the jobbing technique, reported 6,900 evaluation results when in fact only 30 positions had been evaluated.

5.51 Because of these deficiencies, the test results cannot be used to assert the validity and universality of the Standard for positions to be included in the new General Services (GE) group.

5.52 In July 1994, in response to our initial concerns about universality, Treasury Board Secretariat conducted additional testing on positions in occupational groups other than the

General Services group. We found that some 70 occupational groups or sub-groups were excluded from the sample for this test — including some that were predominantly female. In a number of cases, the sample also included too few positions to be able to determine patterns, if any.

5.53 Our examination of the results of the various tests conducted by the Secretariat indicates that:

- positions at the same level under the existing job evaluation system were distributed over three, four and sometimes five different levels in the new proposed General Services group;
- positions that had been given about the same number of points using the Standard would have salary differences ranging from \$5,000 to \$50,000 using the current salary scales; and
- a number of positions were exceeding the maximum number of points proposed for the highest level of the General Services group.

While such results might be justified and valid given the new values imbedded in the Standard, they might also indicate the presence of problems or anomalies. A detailed examination of the results is necessary to determine if they are valid or stem from shortcomings in the Standard's components, misapplication of the Standard, skewed results due to "jobbing", improper classification of jobs under the current system or the way pay rates have been established. The Secretariat has yet to determine if such results are valid or not.

5.54 We believe that the Secretariat needs to conduct more rigorous and convincing testing to assert the validity, universality and gender neutrality of the Standard if it wants to persuade the employees, unions and other stakeholders

that the Standard is indeed valid, universal and gender-neutral.

5.55 Treasury Board Secretariat, in collaboration with departments and representatives of employees and with the support of external experts in pay equity and job evaluation, should ensure that the Standard is capable of evaluating all jobs in the public service while meeting criteria for gender neutrality stemming from the *Canadian Human Rights Act*. More specifically, the Secretariat should ensure that:

- the method used for collecting information on job content in public service jobs is valid, reliable, credible and free of bias, with appropriate quality control mechanisms to permit the collection of information on all significant job content, including work associated with women's work that is often overlooked;
- the sample of jobs used to gather information on job content is adequate and credible, with adequate gender representation;
- the various components of the Standard (elements, degrees and degree illustrations) are reviewed to ensure that they can effectively capture and properly value all the significant job content found in the public service, including that associated with women's work. This should include ensuring that:
 - all components of the Standard are clearly defined and measure unique aspects of work to the extent possible;
 - the progression from minimum to maximum value in each element is clear; and
 - illustrations intended to assist raters provide a reasonable spectrum of job content, do not undervalue work performed by

We believe that the Secretariat needs to conduct more rigorous and convincing testing to assert the validity, universality and gender neutrality of the Standard.

One of the reasons for the continuing high cost is that, with the Standard, job content information is still gathered through job descriptions.

women and are consistent with the definitions and the desired progression in value;

- the weight allocated to each element is appropriately distributed to permit the valuation of all jobs, including work performed by women, on a fair and equitable basis while giving proper recognition to the objectives and values adopted for the public service and the reform; and
- thorough testing, on a valid sample, of the validity, reliability and gender neutrality of the Standard is carried out with adequate quality control measures and, if necessary, review and additional testing before implementation.

Treasury Board Secretariat's response: Treasury Board Secretariat (TBS) agrees with these recommendations.

TBS acknowledges that the version of the Universal Classification Standard (UCS) that was reviewed by the Auditor General had shortcomings. However, a lot was accomplished and a leading-edge tool was produced at that time. TBS agrees that some things could have been done differently given more resources and better co-operation among the stakeholders.

TBS has since adopted a consultative approach to develop improvements to the UCS, enhance the collection of data, re-weight elements and add new elements, and simplify the process. All of the main stakeholders have recently agreed upon definitions for gender neutrality, universality and simplification.

The current active participation of the Canadian Human Rights Commission, the Auditor General's Office, consultants, departments and unions on a UCS Advisory Committee, a Technical Committee, and other committees and working groups dedicated to specific aspects of the improved UCS should ensure that we can address previous

shortcomings and succeed in achieving these recommendations.

Statistical testing will also supplement the qualitative approaches being developed in consultation with all stakeholders to achieve a universal, gender-neutral plan.

Simplification and Operating Costs of Job Evaluation

Job evaluation will be improved but still time-consuming and costly

5.56 Using only one classification standard will make it much easier for managers to make classification decisions and to explain the results. Still, job evaluation with the version of the Standard we reviewed would be relatively complex and costly, according to experts.

5.57 One of the reasons for the continuing high cost is that, with the Standard, job content information is still gathered through job descriptions. Job descriptions in the new format we reviewed were long, in many cases ranging from five to 11 pages. The Treasury Board Secretariat estimated that it would take approximately two days to write a job description using the new format. Departments we visited generally confirmed this estimate, some indicating that, in many cases, it took as long as three days. The time and thus the cost of writing job descriptions is about the same with the Standard as with the present job evaluation plans used by departments. However, Treasury Board Secretariat estimates that with the Standard, a committee will be able to evaluate five positions a day on average, a notable improvement compared with the one position a day using the existing systems. Some departments we visited, however, thought that this estimate was optimistic.

5.58 Writing detailed job descriptions and evaluating jobs with the version of the

Standard we reviewed entail significant training costs. It was estimated that individuals need two or three days of training to be qualified in writing job descriptions in the new format, and another two or three days to be able to participate in job evaluation committees. One department reported that the cost of training managers to write job descriptions and evaluate jobs with the Standard had been \$3.4 million in salary alone, for some 18,000 positions. On this basis, the cost in salary for training managers, let alone incumbents of positions, in the public service as a whole could be substantial.

5.59 We found that some departments are exploring avenues to reduce the burden and operating costs of job evaluation after the Standard is implemented. For instance, one department with some 25,000 positions intends to use the “jobbing” technique extensively. It has identified 82 generic job descriptions that could be applied to about 65 percent of all its positions proposed for inclusion in the General Services (GE) group. This would reduce significantly the time required to evaluate them. Other departments have developed or are planning to introduce computerized job descriptions or a computer bank of job descriptions.

Effort to computerize job evaluation failed

5.60 In the context of a suggestion made by the task force, the Treasury Board Secretariat launched in April 1991 a research and development project to determine whether artificial intelligence technology could provide managers with a tool for writing job descriptions and for evaluating jobs in a few minutes.

5.61 With co-operation and financing from 10 departments and with assistance

from the Artificial Intelligence Research and Development Fund of Industry, Science and Technology Canada, the Secretariat hired two consultants to produce a prototype with two modules — one for writing job descriptions and one for evaluating jobs. In March 1993, the prototype was delivered.

5.62 Consulting and Audit Canada was asked by the Secretariat to assess the results. The report revealed that, in spite of impressive achievements in research, there were a number of serious problems with the design and the different technology used for the two modules. As a result, the prototype could not be made operational, and the effort required to develop an operational system would mean almost starting over. The prototype would have to be redesigned. Consulting and Audit Canada estimated that, to produce an operational computerized tool, work would have to continue for another two to three years and could cost \$3.5 million to \$6 million. Furthermore, Consulting and Audit Canada considered that the project would involve significant technical risk. For these reasons it recommended a cost/benefit analysis before pursuing the project. After \$1 million had been spent, the project was terminated. Departments that had contributed resources to the project expecting an operational system were disappointed by the results.

5.63 We believe there are ample opportunities to simplify job evaluation further and to reduce the associated costs. Between a job evaluation system that requires detailed and lengthy job descriptions and the individual evaluation of jobs and a system that does the same thing using artificial intelligence technology, there are intermediate solutions that can take advantage of current computer technology, and new

We found that some departments are exploring avenues to reduce the burden and operating costs of job evaluation after the Standard is implemented.

We believe there are ample opportunities to simplify job evaluation further and to reduce the associated costs.

The simplification of job evaluation and, in particular, reduction of the operating costs is an important issue for departments.

trends in job evaluation such as developing a structured computerized questionnaire. Exhibit 5.8 presents new trends in job evaluation. Exhibit 5.9 presents an illustration of the structured questionnaire approach to job evaluation for "Work of Others". The simplification of job evaluation and, in particular, reduction of the operating costs is an important issue for departments. They will bear most of the implementation cost, as well as the ongoing operating costs resulting from any job evaluation plan. Their demands for keeping such costs as low as possible should not be ignored.

5.64 At the conclusion of our audit, the Treasury Board Secretariat was examining various options to improve the collection of information on jobs at lower cost, including the feasibility of using a questionnaire during the implementation phase. Other options being considered include data banks of job descriptions and job evaluations, and computerizing a questionnaire at a later stage.

5.65 Treasury Board Secretariat, in collaboration with departments and representatives of employees and with the support of external experts in pay

Exhibit 5.8

New Trends in Job Evaluation: Simplification, Computerization and Reducing Operating Costs

Our review of recent literature on job evaluation and visits and consultations with private and public sector organizations showed that organizations are moving away from using job descriptions in evaluating jobs. One emerging approach is the use of a structured questionnaire as input to a computerized job evaluation system. Many organizations we visited that had set objectives of simplifying job evaluation and reducing operating costs had developed such questionnaires.

It is clear from both the literature and the results of our visits and consultations that developing a well-designed, structured, computerized questionnaire is very demanding, and that it requires a greater initial investment than writing job descriptions. However, organizations that opted for a questionnaire consider that the advantages significantly offset both the difficulty and the initial cost. The reported advantages of structured computerized questionnaires include the following:

- They have the support of pay equity experts and organizations responsible for enforcing pay equity principles: a well-designed, structured questionnaire can ensure that all the job content of female- and male-dominated groups is made visible and valued properly.
- The collection of job content information and the evaluation of that job content can be done simultaneously.
- The time required to administer the questionnaire varied from 90 minutes to 3 hours, compared with two or three days for writing job descriptions.
- The demands on a job evaluation committee are significantly reduced, except for the conversion to the new system. A committee is still needed, however, to validate the results and oversee the management of the system afterward.
- Training is reduced significantly, since it is focussed mainly on the needs of classification specialists.

Partly because the design of the questionnaires eliminates the problem of inconsistency in the language used to describe the work, they can significantly minimize the inflation of evaluation ratings. In many of the organizations we visited, this reduction in the scope for manipulating the system resulted in major drops in the volume of requests for reclassification and in the number of staff assigned to manage the job evaluation system.

A questionnaire does not eliminate the need to audit and monitor the classification decisions made while a new job evaluation system is being implemented, or over the years. However, the time devoted to these activities is reduced significantly because of controls built into the questionnaire or the computer program.

Those organizations we visited emphasized, however, that effective communication — including extensive information sessions — was essential to ensure transparency and to make sure that managers and employees understood the new job evaluation plan.

equity and job evaluation, should ensure that the implementation costs and future operating costs borne by departments are the lowest possible, notably by exploring alternatives to detailed job descriptions, such as a structured questionnaire, and by finding ways to simplify the job evaluation process further.

Treasury Board Secretariat's response:

Treasury Board Secretariat agrees.

However, it is important to separate out investment that goes into the design phase of the Standard to ensure that work characteristics are not overlooked.

Streamlined and more economical means of writing and evaluating work descriptions are being addressed in

Exhibit 5.9

**Illustration of a Structured Questionnaire Approach
to Job Evaluation: One Question for the Element
"Work of Others"**

Work of Others

This section asks questions about your job's responsibility for the work of others. "Others" could be subordinates, secondees, project team members, volunteers, agency personnel and students working on a temporary or short-term basis – but does not refer to work performed by individuals under personal or professional service (which is measured elsewhere).

Circle the Best Answer.

- 1 Not part of the job
- 2 Small part of the job
- 3 Somewhat important part of job
- 4 Important part of the job

How important to your job is:

- | | | | | |
|---|---|---|---|---|
| a. Making up a duty roster or work schedule for others | 1 | 2 | 3 | 4 |
| b. Seeing that the duty roster or schedule is followed | 1 | 2 | 3 | 4 |
| c. Making changes to the roster or schedule when priorities change | 1 | 2 | 3 | 4 |
| d. Assigning tasks or work during a shift or project | 1 | 2 | 3 | 4 |
| e. Arranging for others' on-the-job training | 1 | 2 | 3 | 4 |
| | | | | |
| f. Checking the work of others | 1 | 2 | 3 | 4 |
| g. Initiating performance appraisals | 1 | 2 | 3 | 4 |
| h. Giving input on performance appraisals | 1 | 2 | 3 | 4 |
| | | | | |
| i. Final review of performance appraisals | 1 | 2 | 3 | 4 |
| j. Recommending or initiating disciplinary actions | 1 | 2 | 3 | 4 |
| k. Carrying out disciplinary actions | 1 | 2 | 3 | 4 |
| l. Authorizing disciplinary actions | 1 | 2 | 3 | 4 |
| m. Counselling others about their performance | 1 | 2 | 3 | 4 |
| | | | | |
| n. Recommending new or changed work procedures | 1 | 2 | 3 | 4 |
| o. Implementing new or changed work procedures | 1 | 2 | 3 | 4 |
| p. Authorizing new or changed work procedures | 1 | 2 | 3 | 4 |
| q. Establishing standards for work | 1 | 2 | 3 | 4 |
| | | | | |
| r. Developing priorities for the work of others | 1 | 2 | 3 | 4 |
| s. Approving priority plans | 1 | 2 | 3 | 4 |
| t. Developing long-term objectives for work (staffing, resource requirements) | 1 | 2 | 3 | 4 |
| u. Approving long-term objectives for work | 1 | 2 | 3 | 4 |
| | | | | |
| v. Recommending training for others | 1 | 2 | 3 | 4 |
| w. Authorizing training for others | 1 | 2 | 3 | 4 |

anticipation of a positive decision on implementation.

Simplification of the Occupational Group Structure

With a few exceptions, all the requests made to both the task force and Treasury Board Secretariat were aimed at maintaining current occupational groups or creating sub-groups within the occupational group structure.

Some departments have made representations to the Treasury Board Secretariat stressing the importance of simplifying the occupational group structure further.

5.66 As we note in paragraph 5.17, the task force set up to review the design of the occupational structure recognized its complexity and recommended reducing the 72 occupational groups and 106 sub-groups to 23 and 8 respectively. It also recommended the creation of the General Services group that would include some 125,000 employees. The rationale for whether to merge or maintain occupational groups was based mainly on the general nature of the work and the community of interests. Other factors were also considered, such as the need for professional certification, comparability with outside labour markets and respect for union affiliations.

The occupational group structure: less simplified than recommended

5.67 The Treasury Board Secretariat endorsed the criteria used by the task force for the simplification of the occupational group structure but, under pressure, placed greater importance on its commitment to respect union affiliation. A review of representations and correspondence revealed the extent of the lobbying efforts on this point by groups, associations and unions. With a few exceptions, all the requests made to both the task force and Treasury Board Secretariat were aimed at maintaining current occupational groups or creating sub-groups within the occupational group structure. As a result, instead of the 8 sub-groups recommended by the task force there could be as many as 30 to 45 sub-groups. In that case, simplification would be much less than initially envisaged.

The proposed structure: varying degrees of support

5.68 The proposed new occupational group structure does not appear to have the support of all departments. For example, in February 1992, deputy ministers reaffirmed their support for the objectives of the reform but they expressed concern about the large number of sub-groups and the apparent lack of consultation with departments on decisions about the types and number of occupational groups. Many felt that respect for union affiliations had taken precedence over departmental priorities and operational requirements.

5.69 Most of the departments we visited were satisfied with the creation of the General Services group, especially those with a large proportion of employees proposed for inclusion in it. These departments saw the creation of the group as a major step in the right direction. They also felt that this new occupational group would make it easier to deal with expenditure reductions, restraint and restructuring.

5.70 Departments less affected by the creation of the General Services group said that the number of occupational groups and especially sub-groups was still too high. They saw the proposed occupational group structure as only a marginal improvement. For example, some would like to have seen a number of occupational groups in the department amalgamated into a single, broader group to facilitate career advancement, maximize flexibility or meet operational requirements more efficiently. Some departments have made representations to the Treasury Board Secretariat stressing the importance of simplifying the occupational group structure further.

5.71 Departments also expressed concern about the appropriateness of

maintaining current union accreditations in the transition period. For many departments, this runs the risk of significantly diluting the anticipated benefits of simplification. Experts also said that maintaining a large number of occupational groups and the current collective bargaining structure, where each bargaining agent representing an occupational group negotiates salaries separately, will likely conflict with the principle of equal pay for work of equal value and the use of internal relativity as the underlying principle of compensation in the public service. In their opinion, maintaining the current bargaining structure and process for negotiating salaries could eventually have a negative impact on any improvement in internal equity brought about by the application of the Standard.

Significant opportunities exist to simplify further

5.72 Our review of the work and studies carried out in the context of the task force indicated that other options would have permitted greater simplification of the occupational group structure and might have offered more flexibility. There is no evidence that such options were considered fully. For example, one option advocated retaining six occupational groupings to replace the current 72 occupational groups. That option also assumed that all jobs would be evaluated using a single job evaluation plan. Its proponents claimed that it would eliminate barriers among the existing groups and would provide much greater flexibility.

5.73 We also found that other organizations — including public sector organizations — have undertaken more vigorous reforms of their occupational structure than those envisaged by the task

force. For instance, one organization has reduced its occupational groups from 27 to one. Instead of some 260 pay rates it now has a 16-level pay structure, ranging from cleaner to vice-president. According to senior management, this new structure provides simplified pay administration, increased mobility and management flexibility.

5.74 As part of its reforms, the Australian public service has also simplified its occupational group structure. It now has only five broad groupings, including an equivalent of the General Services group, the Administrative Service Officer.

5.75 Because of the close links between the occupational group structure and other aspects of human resource management in the public service, such as staffing, pay and labour relations, further simplification of the occupational structure and related administrative systems could result in substantial savings, while improving efficiency. For instance, an analysis of some 630 pay scales in the public service (regional rates were excluded) revealed that often differences among them were not significant. When we applied a differential of 4 percent and compared the highest rates of these pay scales, we found that there were fewer than 50 significantly different pay scales in the public service.

5.76 For all these reasons, we believe that more could be done to either simplify the occupational group structure and/or reduce the administrative cost of other systems that results from maintaining a complex occupational structure, such as the current one or even the one proposed.

5.77 **Treasury Board Secretariat, in collaboration with unions, departments and other stakeholders as appropriate, should review the proposed occupational group structure to**

Further simplification of the occupational structure and related administrative systems could result in substantial savings.

Most departments anticipated that payroll costs would increase as a result of converting to the new system, though they did not know by how much.

Departments need to know the cost implications as well as the benefits they will reap from the reform.

determine how it could be simplified further and/or how its impact on the complexity and cost of related human resource systems such as collective bargaining, staffing, pay administration and others could be significantly reduced.

Cost Neutrality: Not Clearly Defined and Possibly Unrealistic

5.78 At the beginning of the reform project, Treasury Board Secretariat made a commitment that the reform would be “cost-neutral”. We found that the term had not been defined clearly and that, as a result, there were several interpretations of its meaning. Furthermore, we found that the cost of operating the existing job evaluation systems was not known with any degree of precision. Treasury Board Secretariat had taken steps to determine the cost of the current systems and the potential savings stemming from the implementation of the new reformed system, but without success. Scenarios and cost estimates we reviewed ranged from \$65 million to \$200 million a year for some 200,000 classification actions. Partly because of this, at the conclusion of our audit in the fall of 1995, the Secretariat was not in a position to determine with any degree of precision the costs and benefits of the new system.

5.79 Departments’ officials did not know how the objective of cost neutrality could be achieved, given the requirements for pay equity and the guarantee contained in current collective agreements that any employee whose position is evaluated to a lower level will not see a reduction in salary. Most departments anticipated that payroll costs would increase as a result of converting to the new system, though they did not know by how much. Some expressed concerns that they may incur higher cost without much significant

benefit, because the impact of the new General Services (GE) group on the efficiency of their operations would be more limited than in other departments. In times of restraint, return on investment is an important issue for departments. One department reported having invested some \$17 million on the first phase of applying the Standard to approximately 18,000 positions. This figure excluded the cost of converting to the new system. We must recognize, however, that departments whose programs are offered on a standardized basis may have incurred much lower costs up to now. Departments need to know the cost implications as well as the benefits they will reap from the reform.

Treasury Board Secretariat’s comments: *Treasury Board Secretariat asserts that costs during the development of a Standard, when the fullest range of information is being sought and the training curve is at its steepest, will be higher than those incurred during the actual implementation of the Standard. Therefore, these costs should not be projected as being the likely or typical departmental costs of implementing the Standard.*

Treasury Board Secretariat agrees that costs can be reduced by simplified methods during implementation and, to this end, is pursuing a variety of mechanisms including computer-based questionnaires, generic work descriptions, and cost-effective training modules.

5.80 Two years following the tabling of this Report the Treasury Board Secretariat should conduct an evaluation of the progress of the reform. In conducting its evaluation the Secretariat should take into account the views of the various stakeholders and the impact of the reform on them.

Treasury Board Secretariat’s response: *Treasury Board Secretariat agrees in*

principle with this recommendation and its scope, and will raise the matter at an early meeting of the UCS Advisory Committee with a recommendation that it be endorsed.

Need for a Different Approach

Treasury Board Secretariat's initial positions contributed to problems

5.81 We feel that some initial positions adopted by the Treasury Board Secretariat contributed to an impasse with some stakeholders and experts and were partly responsible for many of the problems we identified. For example, staff in the Secretariat took the position throughout the audit that as long as male and female work was measured by the same standard, the evaluation of the work was gender-neutral. Such a view supports systemic discrimination: one must ensure that all aspects of men's and women's work are reflected in the components of the Standard.

5.82 We also found that until recently, the Secretariat did not give sufficient consideration to advice it received. For instance, in April 1991 a pay equity expert informed the Secretariat that the proposed methodology for developing the weighting of the Standard's elements was flawed and possibly did not meet the requirements of section 11 of the *Canadian Human Rights Act*. We have no evidence that the Secretariat examined this serious allegation thoroughly when it was raised. As we have noted in paragraph 5.46, this methodology was one of the causes of the significant imbalances in the weights given to the elements of the Standard.

5.83 The Secretariat's initial interpretation of the exclusive and unilateral right of Treasury Board to develop a classification and job evaluation plan also led to problems. It is true that

the *Public Service Staff Relations Act* explicitly excludes job classification or job evaluation from collective bargaining, and provides for no consultative or negotiation framework for the meaningful joint work required to develop a valid and credible classification and job evaluation plan. However, we think that the complaint mechanism provided in the *Canadian Human Rights Act* of 1978 requires a change in attitude and approach on the part of the employer, as well as some form of framework to discuss issues related to job evaluation. Employees or their representatives can challenge a job evaluation system developed by the employer, including some of its underlying premises, if they think that it discriminates on the basis of sex. If challenged, the employer must defend its decisions before an independent third party. Also, empirical evidence and jurisprudence point to the fact that systems developed in collaboration with employees are more likely to be balanced and representative of the values of all employees, and less discriminatory.

Until recently, lack of sustained consultation with stakeholders and experts

5.84 We noted a lack of sustained consultation, in particular with certain stakeholders such as the Canadian Human Rights Commission, external pay equity or job evaluation experts and unions, throughout the Standard's development. Although the Secretariat conducted numerous consultations with these stakeholders, they often were on very specific topics, were conducted separately and lacked continuity. No fundamental issues were debated with all the stakeholders or experts present, such as the best method to use to determine the weighting of the elements of the Standard. The lack of sustained consultation resulted in increasing distrust of the Secretariat's

We feel that some initial positions adopted by the Treasury Board Secretariat contributed to an impasse with some stakeholders and experts.

approach. Some departments had similar problems with consultations held by the Secretariat. They perceived these consultations as intended more to convey or confirm decisions than to really solicit points of view or analyze and discuss options for solutions before decisions were made.

5.85 At the conclusion of our audit, the Treasury Board Secretariat was putting in place a number of committees aimed at bringing stakeholders and experts together.

The lack of sustained consultation resulted in increasing distrust of the Secretariat's approach.

Conclusion

The Challenge Only Partially Met

5.86 Almost six years have passed since the task force on classification and job evaluation made its recommendations to simplify the occupational group structure and job evaluation in the public service. Although the development of the Universal Classification Standard is, itself, a remarkable achievement in many ways, given our findings we have to conclude that the challenge posed by the reform has been only partially met.

Significant Issues Need to Be Addressed

5.87 While some significant progress has been made, substantial work must be done, notably to ensure that the *Universal Classification Standard* is a valid and reliable tool capable of evaluating all jobs in the public service. Similarly, greater efforts have to be made to ensure that work performed by women and traditionally overlooked is made visible and valued appropriately and in the same manner as work performed by men. If the version of the Standard we have reviewed had been implemented, it would not have

met the requirements for pay equity and most likely would not have been able to answer a challenge under the *Canadian Human Rights Act*.

5.88 Though job evaluation with the Standard will be simplified because there will be a single classification standard instead of the 70 now used, the cost to operate the job evaluation system will remain high, particularly if detailed job descriptions continue to be used to collect information about jobs. We believe that more effective and less costly options exist that could significantly reduce the operating costs of job evaluation. In times of constraint, such opportunities must be sought vigorously. Further reduction of the operating cost of job evaluation would ensure greater support from departments.

5.89 Unless there are changes to the proposed occupational group structure, simplification is likely to be significantly less than recommended by the task force or anticipated and desired by many departments for optimum efficiency. Departments agreed, however, that even the proposed structure would be an improvement over the current occupational group structure. Significant opportunities exist to further simplify the structure to take into account the need for improved departmental efficiency and/or reduce the cost of some of the associated systems and practices, such as pay administration. If not enough flexibility is provided to departments, the cost and benefits of the reform — in dollars as well as in human terms — may be spread unevenly.

5.90 While the Treasury Board Secretariat has undertaken the reform with a commitment to “cost-neutrality”, this objective was never clearly defined and was possibly unrealistic. At the conclusion of our audit it was not yet in a position to assess with any degree of precision the

cost of the current systems or the cost and benefits of the reform.

The Standard Has Potential and Can Be Made to Work

5.91 In our opinion, the Standard is a step in the right direction and its design represents an improvement over the many job evaluation plans now used by departments. The promising features of the Standard, the very significant developmental work accomplished to date and the general satisfaction of most departments lead us to conclude that the Secretariat should pursue its efforts to develop the Standard to meet both the objectives of the reform and the requirements of the *Canadian Human Rights Act*. All job evaluation or pay equity experts we consulted agreed that, although tough technical issues need to be addressed to ensure that the Standard is valid and credible, these difficulties can be overcome with commitment by all stakeholders, time, resources and improved project management.

Important Measures Are Being Taken to Address Issues Identified

5.92 At the conclusion of our audit, the Secretariat was taking a number of important measures to address issues that we, and other stakeholders, have identified. Although initially they reacted slowly to our concerns about the *Universal Classification Standard*, we have noted since the fall of 1995 a significant change in attitude among Treasury Board Secretariat's officials in relation to our findings. This change has paved the way for improvement. As mentioned, the Secretariat has taken several measures to obtain advice and points of view from various stakeholders

and experts. In addition, important work was being carried out diligently with an objective of ensuring that the Standard will be a valid and reliable instrument capable of evaluating all jobs in the public service, while meeting the requirements of the *Canadian Human Rights Act*.

Although it is too early to assess the net effect of the many measures being taken, they are encouraging.

The Challenge Ahead

The Key to Success: Stakeholders Working Together

5.93 To a large extent, the success of the reform depends on the willingness and ability of the various stakeholders to work together on developing an effective tool for job evaluation and reducing the cost of the system. However, because classification and job evaluation impact significantly on other human resource systems and on the efficiency of program delivery in departments, it is the whole approach to human resource management in the public service that is being challenged by this reform. While the initial focus may be job evaluation and the simplification of the occupational structure, the reform cannot be a piecemeal effort. A significant number of related issues will need to be addressed, such as:

- accommodating the need for departmental flexibility while ensuring that job evaluation is managed consistently across departments in which benefits and costs — in human terms, as well as in dollars — may be spread very unevenly;
- negotiating salaries in the future and simplifying pay administration in a way that maintains internal relativity in the public service while ensuring that people

In our opinion, the Standard is a step in the right direction and its design represents an improvement over the many job evaluation plans now used by departments.

Difficulties can be overcome with commitment by all stakeholders, and with time, resources and improved project management.

Simplification is necessary to improve efficiency and flexibility and reduce administrative costs, in order to free up the financial resources needed to implement the reform while continuing to provide quality of service to Canadians at a reasonable cost.

whose skills are at a premium in the labour market are attracted and retained;

- staffing under a simplified occupational group structure while considering the need for specialized knowledge, skills or experience; and
- reconciling departments' accountability for results and efficient program delivery, given their limited degree of latitude in such matters as job evaluation, the occupational group structure, collective bargaining and pay.

Reform at a Reasonable Cost to the Taxpayer

5.94 Simplification is necessary to improve efficiency and flexibility and reduce administrative costs, in order to free up the financial resources needed to implement the reform while continuing to provide quality of service to Canadians at a reasonable cost. One reason for the reported success of the simplification of classification and job evaluation in Australia was, according to Australian authorities, the strong incentive provided by the direct link between compensation and improvement in overall productivity. In Australia, labour legislation governing the public service and the "structural

efficiency principle" require that increases in pay rates be linked to overall productivity improvement. In the current context of restraint, there might be merit in such an approach.

Treasury Board Secretariat's comments: *Treasury Board Secretariat agrees with the Auditor General that classification and job evaluation are considered "the cornerstone of human resource management in the public service", that "the status quo is unacceptable" and that the "standard has potential and can be made to work".*

Human resource management systems use departmental resources (including management time) — some of which might be better targeted at providing quality services to taxpayers and reducing the deficit. However, to achieve significant efficiencies in all these human resource systems, we need first to modernize how we value work and classify jobs.

TBS is committed to working co-operatively with all of the principal stakeholders to try to achieve one simple, consistent, affordable work evaluation tool that is capable of evaluating all public service work in a consistent, bias-free way, and that reflects new public service values.



About the Audit

Objective

We wanted to assess whether the development and design of the *Universal Classification Standard* was appropriate to achieve critical objectives of the reform, such as universality (applicable to the public service as a whole) gender neutrality (free of bias), and simplification. We also wanted to assess whether the proposed occupational group structure would support efficient program delivery, and how thoroughly Treasury Board Secretariat had taken into account the cost/benefit factor.

Scope

Our audit included work performed by the Secretariat to: design and develop tools to collect information on job content; design and develop the new job evaluation plan; determine the relative importance of each element used to evaluate jobs (the “weighting”); test and validate the new plan; apply the new job evaluation plan to a number of positions; and simplify the occupational group structure.

Our audit of the simplification and operational costs of job evaluation as well as of the occupational group structure consisted of a review and an evaluation of the representations made by departments and unions, and of the work and studies conducted in the context of the task force or by Treasury Board Secretariat.

We interviewed deputy or assistant deputy ministers or directors general of human resources in 10 departments, ranging from large to small. These departments represented more than 70 percent of the employees proposed for inclusion in the new General Services group.

We visited six private and public sector organizations that had recently developed a new job evaluation system and that, in many cases, had simplified their occupational group structure, to assess how they had gone about it. We also conducted numerous interviews and consultations with nine other organizations and three compensation management consulting firms.

We also examined documentation on classification reform in Australia’s public service, and recent literature in the field of job evaluation and work design.

Criteria

Our examination of the development and design of the *Universal Classification Standard* used recognized criteria in the field of job evaluation and took into account the government’s objectives for the new system.

In the absence of specific criteria for gender neutrality, we developed our own from a variety of sources, including: the *Canadian Human Rights Act*, the *Equal Wage Guidelines, 1986*, a publication by the Canadian Human Rights Commission entitled *Implementing Pay Equity in the Federal Jurisdiction*, rulings by the Ontario Pay Equity Review Tribunal and the Canadian Human Rights Tribunal, and academic research on job evaluation and gender neutrality. Treasury Board Secretariat officials and pay equity experts reviewed our criteria, and changes were made accordingly. Officials from the Canadian Human Rights Commission found our criteria accurate and appropriate. A number of pay equity experts provided us with opinions on the universality and gender neutrality of the Standard.

Audit Team

Ghislaine Côté directed this audit.

For information, please contact Jacques Goyer, the responsible auditor.

Appendix

SUMMARY OF SIGNIFICANT DEFICIENCIES IN THE VARIOUS COMPONENTS OF THE UNIVERSAL CLASSIFICATION STANDARD

Elements

- The elements—definition component is intended to explain what the element is supposed to measure. Except for few elements, definitions are vague, broad and at times ambiguous. For example:
 - “Thinking Challenge” is defined as measuring “the effort of the thinking challenge in terms of complexity of the demands and outcomes associated with the work performed.” This definition does not explain what a “demand” and an “outcome” are. Furthermore, it is not clear if the demands and outcomes always vary together in complexity. Although **Notes to Evaluators** are intended to provide guidelines on how each element is to be applied, they do not provide enough instructions to make sure the evaluator has the appropriate interpretation of what is measured.
 - “Care of Individuals” is intended to measure “the responsibility to provide direct care to individuals....” It is not known what types of direct care are measured, such as short-term, long-term, critical or non-critical and how these factors should or should not be taken into consideration. **Notes to Evaluators** include no additional explanation to assist the evaluator in interpreting the purpose of the element.

Degrees and Their Definitions

- Degree definitions have been defined on a rating scale to represent a progression from a minimum to a maximum value. In their present form, degree definitions are extremely vague and ambiguous. In fact, except for two elements, degrees are not really defined. They have been framed in “generic” words such as some, moderate, significant, extensive, etc. and they cannot assist the evaluator in establishing meanings for these words or providing rules of differentiation among jobs. For example:
 - For the “Physical Demands” element, “Limited effort” was defined as “Limited physical effort is required.”

Degree Illustrations

- Degree illustrations serve to exemplify degrees in concrete job content and to show the progression from one level to another. Because element definitions and degree definitions are too general and broad, degree illustrations constitute the actual criteria against which the job is evaluated. Evaluators rate jobs mainly by examining various degree illustrations at different levels and then deciding the “best fit” for the job evaluated. The actual scales embedded in the degree illustrations drive ratings. As it stands, degree illustrations are the critical component in the Standard and they contain the most serious shortcomings.
- The range and breadth of elements are undermined by degree illustrations. In many cases, the criteria included in them are different from those in the element definition and degree definition. For example:
 - The “Thinking Challenge” element is supposed to measure the complexity of demands and outcomes, while the primary difference between degree illustrations at different levels is in scope of authority.
- The criteria embedded in degree illustrations in several elements concentrate too much on the same managerial/hierarchical aspect of work, resulting in too narrow a range of job content. There is too much emphasis on organizational placement, which is the major discernible difference among degrees in elements, even ones that should not be measuring scope of authority.
- Some aspects of work are missing, particularly aspects of women’s work and work at a high level such as complex collegial decision making, the responsibility of maintaining confidential and sensitive information, the requirement to keep up-to-date in technology, the effort and skills to negotiate without authority, human relations skills, etc.
- Based on degree illustrations for some elements, what is measured and the progression from one degree to another are unclear. For example:
 - The element “Influence” aims at measuring “the extent to which activities, decisions or recommendations influence the service being delivered.” Based on degree illustrations, it is not clear what type of influence is being measured, i.e. direct, indirect, contributory, shared or other.

Appendix (cont'd)

- Consistency of degree illustrations is problematic in several cases: within the same degree, there are non-equivalent degree illustrations, and between two degrees there are illustrations with no discernible differences. For example:
 - The element “Context” aims at measuring “the extent to which knowledge of the context is required to perform the work.” The following degree illustration, “The work involves scheduling the output of a data processing centre and determining application specifications, service levels and equipment resource requirements. It requires knowledge of the organization and work flow of the centre and the various operational requirements of the centre’s client”, is clearly not equivalent to another: “The work involves conserving and protecting the fishery resources in a sub-district of a region and requires knowledge of the mandate and objectives of the department. It also requires knowledge of the fishing industry, the geography of the area, and the jurisdictional relationship within the commercial, sport and native fisheries.” Yet both are at the same degree level.
- Degree illustrations systematically devalue women’s work, notably by placing job content of female-dominated jobs at inappropriately low levels compared with male-dominated jobs. For example:
 - In the “Thinking Challenge” element, the degree illustration, “The work involves changing dressings to wounds or incisions, taking vital signs, observing and recording changes in condition of patients, reporting any equipment failures and assisting in arranging clinics and scheduling opportunities” was placed at the same degree level as “The work involves establishing cleaning priorities, deciding on the types or strengths of chemical cleaning products to be used and monitoring the quality of services provided by other cleaners.”
- Another way degree illustrations systematically devalue women’s work is by having degree illustrations that do not adequately differentiate job content at various degree levels among female jobs. For example:
 - In the “Care of Individuals” element, the two nursing jobs in the following degree illustrations have been placed at the same degree levels but are very different in terms of responsibility. The degree illustration, “The work involves providing nursing care to patients in a hospital. Direct care includes carrying out therapeutic measures and diagnostic tests, monitoring symptoms and reactions to treatment and monitoring the progress of patients” requires greater responsibility than the nurses’ aide, “The work involves caring for patients. Direct care includes feeding and providing basic hygiene, remedial treatments, comfort measures such as skin care and emotional support.” This demonstrates that this element does not differentiate very well among the various degree levels for female jobs.
- Instructions given in **Notes to Evaluators** to credit specific job content are not always reflected in degree illustrations, which means that the job content in those cases is unlikely to be credited by evaluators. For example:
 - For the element “Influence”, the notes suggest considering the responsibility for independent action, or as a team member. This was intended to recognize frequently overlooked female job content, collegial decision making. There is, however, no degree illustration that credits such a responsibility.
- A qualitative examination of degree illustrations revealed significant overlapping. Statistical analysis was consistent with this observation and showed a high correlation for 8 out of 16 elements. This has the effect of limiting the universality of the Standard. The more overlapping there is, the higher is the risk that not enough attention will be paid to the full range of job content in an organization.
- Statistical tests have been performed to diagnose for systemic effects by gender. One of the tests revealed that 6 of the 16 elements of the Standard measure male and female job content equally well. The 10 remaining elements favour the content of male-dominated jobs. These results are indicators of potential bias in the Standard.

Examples are drawn from the June 1995 version of the Universal Classification Standard issued by the Treasury Board Secretariat to departments.

Report of the Auditor General of Canada to the House of Commons – 1996

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Peacekeeping

Preface

Chapter 6

Foreign Affairs and International Trade Canada

Chapter 7

National Defence

May 1996

**Report of the
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Chapter 6

Foreign Affairs and International Trade Canada

Chapter 7

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May 1996

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PEACEKEEPING



Preface

The Policy Backdrop

The 1990s have so far proven to be a significant watershed in world politics, leading to a fundamental restructuring of international affairs. Beginning with the demise of the Soviet Union and the disbanding of the Warsaw Pact, the first half of the decade has seen Canada reorient its security concerns from the Cold War to attempting to restore order to states such as Somalia, the former Yugoslavia and Haiti. As the focus of security shifted, the Canadian government undertook a major policy review to manage change.

During the spring and summer of 1994, Parliament established two special joint committees — one on foreign policy and the other on national defence — to examine Canada's role in the world and the place of peacekeeping in Canada's priorities. The establishment of these parliamentary committees was the first step to drafting new foreign and defence policy white papers. Taken together, the work of the special joint committees and the two white papers provide the backdrop for current peacekeeping operations.

The Special Joint Committee Reviewing Canadian Foreign Policy took a broad view of security and put considerable focus on the importance of co-operation on development issues in the prevention of international crises. The Committee advocated bringing economic and military measures together into an integrated approach to security problems. It also favoured a United Nations rapid reaction force to provide assistance in a more timely manner, and a Canadian peacekeeping training centre. According to the Committee, the "primary international role" of the Canadian Forces should be peacekeeping operations.

The Special Joint Committee on Canada's Defence Policy commented on the need to improve the capability of international institutions such as the United Nations. The Committee asked for "clear criteria" regarding Canadian participation in peacekeeping missions. After hearing testimony on the problems faced by the land forces in providing relatively large numbers of troops to the United Nations on a continuing basis, the Committee recommended increasing the land forces by 3,500 combat troops.

The Foreign Affairs and Defence white papers published by the government later the same year adopted similar approaches to peacekeeping. Both white papers noted the problems of the United Nations in acting effectively and included calls for a United Nations rapid reaction capability, improvements in decision-making processes and sounder financing. Both papers promised continued military assistance to the United Nations, including headquarters staff, and both noted with approval the establishment of the Pearson Peacekeeping Centre.

Each of the two white papers also had unique elements. The Foreign Affairs white paper repeated the theme of security that goes beyond military preparedness and mentioned sustainable development, preventive diplomacy and co-operation on development issues as elements in Canada's approach to dealing with instability. The Defence white paper focussed on the government's military policy and stated the government's commitment to a range of military options including preventive deployments, peacekeeping and observer missions, "enforcing the will of the international community", and post-conflict peace-building and confidence-building measures.

These intertwined and mutually supporting policies form the basis for current Canadian peacekeeping activities. The two departments that are primarily charged with carrying out government policy are also deeply meshed together.

Preface (cont'd)

Canadian Government Organization

Government decision making. As explained in the Foreign Affairs chapter, decisions about whether or not Canada should join a new peacekeeping mission are usually made at the Cabinet level. It is customary that the document on which Cabinet bases its decision is signed by both the Minister for Foreign Affairs and the Minister of National Defence. The Minister of National Defence and the Chief of Defence Staff are the sources of advice on military considerations for the Cabinet. What this means in practice is that officials in both departments must agree before the request from the United Nations for Canadian troops may be considered by Cabinet. Foreign Affairs usually writes the first draft.

Interdepartmental co-operation. It appears from our audit that Foreign Affairs and National Defence officials work closely together. The Foreign Affairs chapter gives a number of examples of the departments' co-operation, such as the Canadian study on a rapid reaction capability for the United Nations. Although these efforts appear to have been almost always beneficial, we found that the co-operation has not produced optimum results in the area of financial administration.

Personnel interchange. The interchange of personnel between the two departments in key positions relating to peacekeeping has been beneficial in policy making and implementation. The official directly responsible for peacekeeping in Foreign Affairs is a Canadian Forces officer on secondment from National Defence. Three Canadian Forces personnel work at the Canadian Permanent Mission to the United Nations in New York.

When a conflict is developing and the governments of the world are considering whether and how the United Nations should be involved in efforts toward peace, the Canadian Mission to the United Nations plays a key role in presenting the views of the Canadian government and keeping the government closely informed about the ensuing discussions. Communications back to both departments appear to work well during this critical phase.

The Following Audit Chapters

These two audit chapters attempt to assess Canada's management of its policies as stated in the two white papers. The Foreign Affairs chapter focusses on the adequacy of information to Parliament, information for decision making, efforts toward reform at the UN, the cost of peacekeeping, and financial management. We reported on National Defence costs and related aspects of administration in the Foreign Affairs chapter because an important role of National Defence in peacekeeping is to support the delivery of Canada's foreign policy, and relations with the UN are conducted through Foreign Affairs and International Trade. The National Defence chapter examines the ability of the Department to train and field peacekeeping forces within the limits set by the Defence white paper.

We expect that a number of benefits will result from these audits, including the following:

- There will be enhanced transparency, comprehensiveness and quality of information provided to Parliament and to the public about Canada's participation in peacekeeping.
- The roles, responsibilities and accountabilities of the key players involved will become clearer.
- The relevant management processes will be streamlined.
- The implications beyond the financial cost of peacekeeping as an activity of the government will be even more openly debated and the importance of good financial management better recognized.
- There will be a greater appreciation of the overall cost to Canada of peacekeeping, especially in view of the present fiscal realities.

Chapter 6

**Peacekeeping — Foreign Affairs
and International Trade Canada**

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Peacekeeping — Foreign Affairs and International Trade Canada

Assistant Auditor General: Richard B. Fadden
Responsible Auditor: Vinod Sahgal

Main Points

6.1 Foreign Affairs and International Trade Canada views peacekeeping as central to Canada's foreign policy objective of protecting Canada's security within a stable global framework. Over the years, Canada has participated in most peacekeeping missions.

6.2 The nature of UN peacekeeping has changed dramatically in the post-Cold War era. Before, the main role of the United Nations (UN) was largely to monitor truce agreements between states. Now, the UN is increasingly called upon to carry out more complex missions that also involve a peace enforcement role both between and within states. As well, a role for civil-military co-ordination and co-operation has emerged.

6.3 The United Nations continues to be the key vehicle for pursuing Canada's global security objectives; however, it faces significant constraints in its ability to carry out its peacekeeping function effectively:

- The UN's management points out that member states collectively have not been prepared to adequately equip the organization to meet the additional challenges, as shown by experience in Somalia, Rwanda, Bosnia and Haiti.
- The Department points out that missions with unclear mandates and inadequate resources are unlikely to succeed, despite improvements in management practices at UN headquarters.
- Unlike Canada, a number of members are not paying their dues on time, with the result that peacekeeping funds are increasingly being used to defray the cost of the regular budget, which is also seriously in arrears.

6.4 Canada places a high priority on reform of the UN, and has worked on several proposals to improve the UN's effectiveness in peacekeeping. However, significant reforms require consensus of the 185-member General Assembly. Consensus on change has proved difficult to find.

6.5 The overall cost of peacekeeping to Canada, both financial and non-financial, is not aggregated in any public document. The financial costs have risen sharply in recent years, as a result of the increase in the number and size of missions, from about \$47 million in 1991–92 to an estimated \$240 million in 1995–96, an increase of 410 percent. The cost of participation in NATO peacekeeping in Bosnia and Canada's recent decision to send troops to Haiti will add to this increase.

6.6 The Department has no established procedure to carry out evaluations or "lessons learned" exercises in the area of peacekeeping from a foreign policy perspective. This increases the risk of not benefiting fully from the experience gained from previous participation.

6.7 Canada has recovered \$236 million of its peacekeeping costs from the UN during the last five years. Reimbursements estimated at \$92 million were receivable at 31 March 1996. The amount and timing of reimbursement recovery is largely dependent on the UN's cash position, the priority Canada gives to the collection function, invoices and supporting documentation and acceptance by the United Nations of amounts billed.

6.8 Informed decision making on peacekeeping matters would be enhanced by greater transparency and accountability. Also, the administration for reimbursements from the UN needs to be strengthened.

Introduction

Canada's Foreign Policy and Peacekeeping

6.9 The Cold War period (1946–1990) was dangerous but it is generally believed that events during that period were relatively predictable. Canada's memberships in the North Atlantic Treaty Organization (NATO) and the North American Aerospace Defence (NORAD) Agreements were key guarantees of Canada's military security. In the post-Cold War period, the perception of the old external threat posed by superpower confrontation has for all practical purposes diminished. Although direct threats to Canada's security have diminished, the international security environment is vastly more complex and a whole range of issues such as the environment, overpopulation and increasing disparity have peace and security implications at the local, regional and global levels.

6.10 Foreign Affairs and International Trade Canada is responsible for developing Canada's foreign policy, conducting Canada's relations with the United Nations and, with the Department of National Defence, it is responsible for advising the government whether and to what extent Canada should participate in specific UN peacekeeping missions. Canada, like any other member state, is obliged to pay its assessed share of UN peacekeeping costs whether or not it

actually takes part in a mission. However, participation is an option and the Department's advisory role is important in this area. The Department works closely with National Defence and other government departments in this role. National Defence is also responsible for planning Canada's participation at the operational level, and providing the troops and equipment. The responsibility for financial management is shared by the two departments.

6.11 For a highly trade-dependent country like Canada, prosperity and employment at home require Canada to co-operate with other nations to attract investments and to promote Canadian goods and services in overseas markets. Stability and security are prerequisites for the economic growth and development of these markets. Thus the objectives of promoting prosperity and employment and promoting global peace are interdependent and mutually reinforcing.

6.12 Canada's commitment to international peace and security was reaffirmed in the government's 1995 foreign policy statement "Canada in the World". (See Exhibit 6.1.) The promotion of global peace as the key to protecting Canada's security remains a central element of our foreign policy. Canadian security, including economic security, is viewed as increasingly dependent on the security of others. Protecting Canada's security goes beyond military preparedness. A broad concept of security is needed to address serious challenges,

The promotion of global peace as the key to protecting Canada's security remains a central element of our foreign policy.

The UN continues to be the key vehicle for pursuing Canada's global security objectives.

The government's foreign policy statement of March 1995, "Canada in the World", identifies three key objectives:

- Promotion of prosperity and employment
- Protection of Canada's security within a stable global framework
- Projection of Canadian values and culture

Exhibit 6.1

Canadian Foreign Policy Objectives

Source: "Canada in the World"

Canada has been involved in most peacekeeping operations, both UN and non-UN, since the end of the Second World War.

including environmental and human tragedies from which Canada, even half a world away, is not immune. This broader orientation requires approaches that go beyond military options and focus on the economic, social and political causes of conflicts.

6.13 The government has reaffirmed that the “UN continues to be the key vehicle for pursuing Canada’s global security objectives” and “the success of the UN is fundamental, therefore, to Canada’s future security.” Canada recognizes that the UN must be more effective in order to be fully capable of dealing with the array of new global security issues. With this in mind, Canada is pressing for improvements to strengthen the UN’s peacekeeping and other functions.

Canada’s Contributions to Peacekeeping

6.14 Canada has been involved in most peacekeeping operations, both UN and non-UN, since the end of the Second World War. Examples of important non-UN operations are the two Indo-China peace-monitoring missions in the 1950s to the 1970s in which Canada participated. Canada has contributed over 100,000 troops to 30 of 36 UN peacekeeping missions to date, and its role as a UN peacekeeper is respected internationally.

6.15 Over the years, Canada has provided military personnel and equipment, as well as civilian peacekeepers (election monitors, civilian police, human rights monitors and sanction monitors). As of 31 January 1996, Canada was

Canada’s monument to peacekeeping located in downtown Ottawa (see paragraph 6.14).



Source: Department of National Defence

participating in 10 of 19 UN peacekeeping operations, contributing over 850 out of a total of about 29,000 UN troops. In addition, about 100 Canadian police officers were engaged in civilian police duties in Haiti. Of the 70 member states who are currently contributing troops and civilians, Canada is currently the eleventh largest contributor. Canada has also contributed 1,000 troops to the NATO-led Implementation Force (IFOR) in the former Yugoslavia and is sending up to 750 troops to the UN mission in Haiti, at its own cost, to replace returning American troops.

6.16 Nine Canadian military staff are on loan to the UN, at Canada's cost, for peacekeeping-related duties. Canada has organized specialized meetings and conferences, and funded peacekeeping training. It also continues to initiate improvements to the UN's effectiveness in peacekeeping, such as the study on a rapid reaction capability and another study on a revised budgetary and reimbursement system for peacekeeping operations.

The Nature of Peacekeeping Has Changed

6.17 The nature of peacekeeping has changed dramatically in the post-Cold War period. Between 1945 and 1987, the UN's main role in peacekeeping was generally confined to low-level monitoring of peace agreements reached between conflicting states. The situations encountered were generally quite stable and did not involve the deployment of large numbers of troops or equipment.

6.18 Since the end of the Cold War, there has been a proliferation of so-called complex emergencies entailing a breakdown of legitimate institutions and governance, widespread suffering and massive displacements. The potential for

"new violence" of a more complex and changing nature has emerged.

6.19 These new situations often involve and require a range of responses from the international community within a single mission. Not only is a military presence necessary to monitor a peace agreement, if one exists, but major efforts increasingly are needed to provide humanitarian, medical and disaster relief; contain and rehabilitate refugees; monitor human rights abuses; enforce sanctions; and supervise elections. Peacekeeping in the current context is much broader and includes peacebuilding, peacemaking and peace enforcement. Often peace must first be established before it can be enforced and kept. Thus the complexity of mandates has increased significantly.

6.20 Civil organizations, such as non-governmental organizations (NGOs), have come to play an increasingly larger and more important role in relief and humanitarian activities in conflict areas, either on their own initiative (through funding provided by bilateral donors) or on behalf of the UN. This, of course, applies as much or more to the international development agencies (such as CIDA) that fund many of these NGOs.

6.21 Given the important role that NGOs are increasingly being asked to play, a need has emerged for the effective co-operation and co-ordination of civilian and military efforts to deal concurrently with all important aspects of security, including humanitarian concerns that underlie the conflicts.

6.22 In the changed circumstances of "new" peacekeeping, the UN has had to assume far broader roles and objectives and conduct more complex operations than it is equipped for and, we were told, than its founders may have had in mind when it was conceived. Three recent examples of these challenges are the mass

The nature of peacekeeping has changed dramatically in the post-Cold War period.

In the changed circumstances of "new" peacekeeping, the UN has had to assume far broader roles and objectives and conduct more complex operations than it is equipped for.

migration and starvation resulting from civil war in Somalia, the violent eruption of long-suppressed ethnic and religious divisions in the former Yugoslavia and the genocidal conflict based on tribal rivalries in Rwanda.

6.23 The demand on the UN has grown tremendously, with 18 new peacekeeping missions established since 1990, compared with 18 in all the previous years. UN troops in the field increased from 7,000 in 1989 to a peak of over 69,000 in 1994 and 1995, with a commensurate increase in annual peacekeeping expenditures from about

\$200 million to about \$3.5 billion (US). Since then, however, as a result of handing over peace enforcement in the former Yugoslavia to the NATO-led force, the number of troops under the UN flag has dropped to about 29,000.

The UN Faces Constraints in Its Peacekeeping Function

6.24 The Security Council is the paramount UN decision-making body for peacekeeping. It consists of 15 members: 5 permanent members who have a veto (China, France, Russian Federation, United Kingdom and USA) and

*United Nations
headquarters in New York.*



Source: UN photo

10 non-permanent members who are elected for a two-year period on a rotational basis and do not have a veto. Canada has served as a non-permanent member, usually once every 10 years, and its ability to influence decisions must be viewed in this context.

6.25 The UN's management has pointed out that it faces significant constraints on its ability to cope with the demands of the "new" peacekeeping. Recent experience in Somalia, Bosnia and Rwanda has highlighted the need for improvements, including speedier decisions by the Security Council; clear and realistic mandates; adequate financial and other resources to discharge mandates; a rapid reaction capability; timely and effective troop deployment; improved planning ability, logistical support, deployment and management of large missions; and a better co-ordinated

and expanded flow of information and efforts.

6.26 The Department points out that missions with unclear mandates and inadequate resources are unlikely to succeed despite improvements in management practices at UN headquarters. Canada places a high priority on reform of the UN, and has put forward several proposals to improve the UN's effectiveness in peacekeeping. However, significant reforms require the unanimous support of the 185-member General Assembly. Consensus on the direction and extent of reform is very often difficult to reach. Without consensus, even sustained effort by any one state will yield limited results.

6.27 The UN's serious financial problems and the difficulties in its peacekeeping ability can be resolved, but only through building a consensus of

The UN's management has pointed out that it faces significant constraints on its ability to cope with the demands of the "new" peacekeeping.



The Security Council in session (see paragraph 6.24)

Source: UN photo

The UN's management has stated that members generally have not been prepared to collectively equip the organization adequately to meet the additional challenges.

political will, requiring nations to take a larger view of their ideological and strategic interests. In the UN's operating environment, individual members, particularly those (including Canada) who are not members of the Security Council, have little influence to generate sufficient political will among the most influential members to implement and fund needed reforms. Canada has actively supported, and in some cases proposed, reform measures but, as mentioned, the prospect of their finding acceptance is limited. The UN's management has stated that members generally have not been prepared to collectively equip the organization adequately to meet the additional challenges.

6.28 Since 1990, much-needed improvements have been made in certain aspects of managing UN peacekeeping operations at its headquarters. Canada can take credit for some of them, such as the creation of a 24-hour Situation Centre in the Department of Peacekeeping Operations, largely in response to the difficulty faced by the UN field commanders in obtaining immediate decisions from UN headquarters. A Canadian currently heads the Centre. But these improvements in themselves are not sufficient to overcome the more fundamental constraints outlined above.

6.29 Furthermore, the UN is reportedly facing a serious cash shortage as a result of non-payment by many member countries of both the regular budget and peacekeeping budget assessments. As of 31 December 1995, members owed US \$2.3 billion — \$564 million to the regular budget and \$1.7 billion for the peacekeeping budget. Two of the five permanent members of the Security Council are among the biggest defaulters (Exhibit 6.2). There could be many reasons, both political and financial, why members fall behind or choose not to pay, including cash or foreign exchange shortage, dissatisfaction with the formula used to calculate assessed shares (scale of assessment), the linkage made by some members between their contributions and UN reforms they desire, and other considerations.

6.30 Recently, the Secretary General has been forced to "borrow" unparalleled amounts of peacekeeping funds to pay regular budget expenses, such as staff salaries and other administrative costs. In addition, the UN's management is reportedly considering cuts in headquarters staff to cope with a budget freeze. We understand that staff in Peacekeeping Operations would also be affected, which could negate the improvements made to date. Peacekeeping

Exhibit 6.2

Amounts Owed to the UN as at 31 December 1995 (US\$ millions)

	UN Regular Budget	Peacekeeping Budget	Total
* United States	414	821	1,235
* Russian Federation	—	404	404
Ukraine	41	186	227
Belarus	10	48	58
Germany	0	24	24
All others	99	255	354
Total	564	1,738	2,302

Source: United Nations

* permanent members of the Security Council

funds are provided by members specifically to cover the common costs associated with missions as well as to reimburse countries contributing troops. When peacekeeping funds are not contributed by members or are used by the UN for other purposes, troop contributors do not get paid their reimbursements due from the UN for troop costs and use of equipment. In the words of the UN Secretary General on 6 February 1996, "... the financial crisis has brought the UN to the edge of insolvency... the UN owes about US \$1 billion to countries that have contributed troops and equipment for peacekeeping."

Observations

6.31 To fulfill our audit objective of providing better information to Parliament on Canada's participation in peacekeeping, we examined the role of Foreign Affairs and International Trade in the government's decision-making process and the Department's management practices as they relate to peacekeeping activities. We also examined the role of National Defence in the administration of UN financial transactions related to Canada's peacekeeping involvement. Our statements about UN peacekeeping operations are based upon information provided to us, which we did not audit. The sources of that information are found in Appendix 1. Details on our audit objective, scope, criteria and approach are included at the end of the chapter in the section "About the Audit".

Keeping Parliament Informed

Better information on the objectives and nature of peacekeeping is needed

6.32 Our two peacekeeping audits examined the information provided to Parliament at both the program and

individual mission levels. This chapter deals with the former. Foreign Affairs and International Trade Canada views peacekeeping as an important tool of foreign policy.

6.33 Because peacekeeping is a long-standing, essential part of Canada's foreign policy, and decisions relating to peacekeeping are significant, it is important that Parliament have reliable, relevant and comprehensive information about Canada's participation. Besides having significant foreign policy implications, these decisions involve lives of Canadians and Canada's image abroad, and are thus of the highest importance.

6.34 A better-informed Parliament results in a higher standard of debate, which in turn contributes to decisions and policies by government that are more solidly based and better understood and supported by Canadians. We found that comprehensive information on Canada's participation in peacekeeping is not available to parliamentarians in any one public document. We believe such information is important because of the importance of peacekeeping to Canadians.

6.35 The *External Affairs Act* does not specifically deal with peacekeeping. The Estimates Part III represents the main reference document reporting on a department's expenditures and is expected to provide a comprehensive picture of all aspects of a particular activity.

6.36 We examined the Part IIIs of Foreign Affairs and International Trade Canada, National Defence and other government departments involved in peacekeeping. The Part IIIs of Foreign Affairs give a listing of Canada's assessed shares, paid by the Department, for each UN peacekeeping mission where costs are still being incurred. However, they do not clearly articulate the objective of participating in specific missions. The

The UN is reportedly facing a serious cash shortage as a result of non-payment by many member countries.

Comprehensive information on Canada's participation in peacekeeping is not available to parliamentarians in any one public document.

It is not easy to get a full and accurate picture of the financial cost of peacekeeping to Canada.

The government needs to provide a yearly comprehensive report to Parliament on the objectives, results, significant options considered and implications of Canada's participation in peacekeeping.

Part IIIs of National Defence disclose its full and incremental costs for the missions to which Canada contributes troops. The Part IIIs of smaller contributing government departments usually make no specific mention of their role or contribution to peacekeeping.

6.37 We noted that there is insufficient information provided in any department's Part IIIs on either the amounts owed to Canada by the UN or the amounts recovered from the UN. In other words, it is not easy to get a full and accurate picture of the financial cost of peacekeeping to Canada. The information in Part IIIs is designed to serve the departments' own reporting objectives. However, even the Part IIIs of both Foreign Affairs and International Trade and National Defence considered together do not present a clear and comprehensive picture of all aspects of Canada's participation in peacekeeping.

6.38 In addition, the 1995–96 Estimates Part III of National Defence contained some information that is not fully understandable. The disclosure of information in the Part IIIs needs to be revised to remove any ambiguity concerning the reporting of UN revenues. The assertion was made in the section "Peacekeeping and Related Operations" that amounts reimbursed by the UN are currently returned to the Consolidated Revenue Fund. We found that in addition to those reimbursements, there are other revenues, associated with Letters of Assist (contracts with the UN for the supply of goods and/or services), which are retained by the Department, thereby offsetting a portion of its incremental costs (see paragraph 6.106). National Defence also states in its Part IIIs that Canada is eligible for reimbursement by the UN for death and disability compensation. We noted that Canada has not billed the UN

for death and disability payments (see paragraph 6.109).

6.39 We also noted that neither the Part IIIs of Foreign Affairs and International Trade nor those of any other department mention the full implications for Canada of its participation in peacekeeping. Some implications brought to our attention by the Department include opportunities for Canadian business and the impact of UN duties on ongoing training and the well-being of Canadian troops (see Chapter 7 on National Defence). Information is also not provided on whether other ways of contributing to UN peacekeeping missions were considered, for example, other mixes of military and civilian personnel, fewer troops and more humanitarian aid. Although there is some description of Canadian efforts in trying to improve the UN's peacekeeping function, neither these efforts nor the potential for results are described adequately.

6.40 In view of the above limitations, we believe that the government needs to provide a yearly comprehensive report to Parliament on the objectives, results, significant options considered, costs and implications of Canada's participation in peacekeeping. Our 1994 Report Chapter 7 on "Information for Parliament" pointed out the importance of a lead department for reporting in situations where more than one department is involved in a particular activity. The section on Search and Rescue in the Part IIIs of National Defence serves as an example of how this can be done. We believe that the lead department for providing information to Parliament could be Foreign Affairs and International Trade. A primary purpose of participating in peacekeeping is linked to Canada's foreign policy.

6.41 The Department is concerned that by assuming the role of lead department

for reporting purposes, it would be held accountable for all peacekeeping expenditures, such as incremental costs of National Defence, rather than only for its designated current responsibilities, that is, paying Canada's assessed share. We were informed by departmental officials that the capacity for assuming a wider management responsibility does not currently exist at the Department. What we envision is a lead department designated to bring together information on all significant aspects of peacekeeping and report it to Parliament without necessarily changing respective accountabilities. Nonetheless, the Government of Canada needs to decide on how best to provide the above-noted information to Parliament.

Information for Decision Making

Better information on implications and results is needed

6.42 Our objective in examining this aspect was to assess the nature and quality of information received by ministers for making decisions about Canadian participation in peacekeeping missions.

6.43 Decisions on whether and to what extent Canada should participate in UN peacekeeping missions are normally made at the Cabinet level.

6.44 We believe that information for decision making needs to include:

- a clear statement of the nature and extent of participation and the potential for achieving Canadian foreign policy objectives;
- analysis of the political, humanitarian and military situation in the country/region of conflict;

- an assessment of the physical risks to Canadian personnel and of the probable duration of involvement;

- the financial cost and other implications for Canada;

- an assessment of whether government guidelines for participation are being followed; and

- the different ways in which Canada could participate, and an assessment of the lessons learned from participation in previous missions.

6.45 In examining this issue, we studied all relevant documents we could obtain for the UN peacekeeping missions in Cambodia, Somalia, Rwanda, former Yugoslavia, and Haiti. We had access to all the documents that were available and obtained sufficient information to assess the quality of information to ministers on matters of foreign policy. We were informed by officials that ministers also receive information by oral briefings and from other sources, which we could not audit.

6.46 Although documents specify the nature and extent of the role of Canadian troops in support of a UN mission, the specific benefits that Canada would derive over and above supporting the UN are not always stated. For example, other benefits that would accompany the cessation of a conflict, in addition to stability and humanitarian aspects, could range from political benefits vis-à-vis important trading partners to avoiding possible refugee flows to Canada. As a result, it was difficult to assess the basis on which the nature and extent of participation was recommended to ministers. In the absence of a clear statement on what Canada additionally hoped to achieve from a specific mission, it was presumed that Canada's objectives were identical to those of the UN. The UN's objectives,

expressed in terms of one or more Security Council resolutions (which inevitably reflect the compromises necessary to reach consensus), are often unclear.

6.47 One example of an unrealistic mandate was the UN Security Council's passing of a resolution that declared certain cities in Bosnia to be "safe areas". In retrospect, it is clear that insufficient thought was given to the force necessary to implement such a mandate; the Security Council resolution was an expression of hope that, on the ground, could not be implemented. Foreign Affairs officials have also informed us that, in the case of the UN's protection force in ex-Yugoslavia, UNPROFOR, several resolutions were passed providing additional, sometimes conflicting, tasks for the UN forces that made the overall mandate unclear.

6.48 Ministers are normally provided with a reasonable analysis of the political and humanitarian situation in the country/region of conflict. Usually there is also a brief statement on the degree of risk that Canadian soldiers would face.

6.49 An area of risk for which little or no information is usually documented for ministers is the potential for longer-term involvement of Canada beyond the usual six-month mandate given to UN missions by the Security Council. It is extremely rare, if ever, that UN missions terminate in six months. Most continue for much longer periods. For example, the monitoring mission in India-Pakistan started in 1949 and is still going on. In fact, once involved, Canada has nearly always remained in theatre well beyond the usual initial six-month mandate.

6.50 We determined from our examination of documents related to two recent renewals of missions that

information on the incremental cost of missions is being provided to ministers. Canada's assessed share of the estimated cost of the mission was also indicated and the Department pointed out that this cost would have to be paid whether or not Canada decided to participate. The underlying rationale was that since a Canadian decision to participate would not entail new budgetary appropriations, cost was not a determining factor in the decision to participate. Foreign Affairs also pointed out that the incremental costs of the use of Canadian troops and equipment in a conflict situation are lower than the cost of using the services of the private sector or non-governmental organizations.

6.51 We noted that insufficient analysis was provided to ministers of other implications for Canada or for the departments involved. For example, the impact of foregoing major scheduled training exercises on the operational readiness of Canada's armed forces normally is not documented (see Chapter 7 on National Defence).

6.52 We also noted that cost to Canada is mentioned only indirectly in the government's guidelines for Canadian participation in UN peacekeeping, which were reaffirmed recently (see Exhibit 6.3).

6.53 Furthermore, although the option of providing humanitarian aid was sometimes included in documents to ministers, it was not clear whether options other than the purely military option, such as different mixes of military and civilian components, are normally considered.

6.54 The extent to which the guidelines can be observed in any given situation is usually not referred to in documents to ministers. Officials explained to us that other factors, such as a pressing need to respond to severe emergency needs based on humanitarian

considerations, often preclude observance of the guidelines. Thus it appears that these guidelines represent a desirable list of conditions in an ideal situation rather than a realistic basis for deciding whether or not to participate. National Defence has pointed out that the guidelines are not a representation of policy, but rather, as the term suggests, merely guidelines.

6.55 Foreign Affairs and International Trade has no established procedure to carry out evaluations or “lessons learned” exercises in the area of peacekeeping. This increases the risk of not benefiting fully from the experience gained from previous participation. We noted only one evaluation commissioned by the Department. The key lesson learned in this case was “as much as possible of the international crisis response mechanism must be removed from the strictly political dimension.” Another illustration of a “standback assessment” is the “International Response to Conflict and Genocide — lessons learned from the Rwanda experience”, which was conducted jointly by international donors, including Canada, and non-governmental organizations under Danish leadership. “Lack of Policy Coherence” is cited as a key problem. It is pointed out, “Humanitarian action cannot substitute for political action.” This is perhaps the most important finding of this assessment. We

believe it is also necessary to periodically conduct a “standback assessment” to determine the extent to which Canada’s interests have been served from a foreign policy perspective and what lessons have been learned from Canada’s experience in specific peacekeeping missions.

Canadian Efforts to Reform the UN’s Peacekeeping Function

More creative approaches to reform are required

6.56 Foreign Affairs and International Trade is committed to trying to make the UN more effective in a number of significant areas. Canada is concerned about the UN’s capacity to initiate and manage peacekeeping missions, the soundness of its financial base and its ability to react rapidly to conflict situations. Canada has been trying to promote reform of the UN’s peacekeeping function at both the political/institutional level and the operational level. The results so far are somewhat mixed. As one official pointed out, “progress is made in millimetres.”

6.57 We selected for examination a limited number of specific initiatives in which Canada has participated.

6.58 At the political/institutional level we noted three areas of reform — improved consultations, strengthening of

Foreign Affairs and International Trade has no established procedure to carry out evaluations or “lessons learned” exercises in the area of peacekeeping.

It is necessary to periodically conduct a “standback assessment” to determine the extent to which Canada’s interests have been served from a foreign policy perspective.

Exhibit 6.3

Government Guidelines for Canadian Participation in UN Peacekeeping

- There must be a clear, achievable mandate from a competent political authority like the Security Council.
- The parties to the conflict must undertake to respect a cease-fire and must accept the presence of the Canadian troops.
- The peacekeeping operation must undergird a process aimed at achieving a political settlement.
- The number of troops and the international composition of the operation must be suited to the mandate.
- The operation must be adequately funded and have a satisfactory logistical structure.

Source: Minister of Foreign Affairs’ speech, 25 January 1994

Canada has been trying to promote reform of the UN's peacekeeping function at both the political/institutional level and the operational level.

the rapid reaction capability, and changes to the scale of assessment.

6.59 Improved consultations. Canada has been promoting better consultation between the Security Council members and troop-contributing countries.

6.60 The UN Security Council authorizes the establishment of a peacekeeping operation by means of a resolution passed by the Council. Subsequent resolutions can modify, or add to, the role of the peacekeeping force. However, the problem is that the Council has been passing resolutions without sufficiently taking into account the practical concerns of the nations that contribute troops. This was causing practical problems that could have been avoided had there been a requirement for better consultations beforehand.

6.61 At the insistence of Canada and others, the informal practice of dialogue between the Security Council and troop-contributing countries has been formalized.

6.62 To this end, in the spring of 1994, major troop-contributing countries met in Ottawa, at Canada's initiative. This meeting led to the creation of three working groups on political direction, command and control and training of peacekeeping personnel. Three papers were produced and sent to the UN Secretary General in November 1994.

6.63 Subsequently, a Security Council presidential statement was issued specifying that meetings should be held "as a matter of course" among members of the Council, troop-contributing countries and the Secretariat to facilitate the exchange of information and views "in good time" before the Council makes decisions about the mandate of a particular peacekeeping mission.

6.64 The Department continues to take steps to improve further on these advances.

6.65 Rapid reaction capability. Canada has submitted a broad proposal to the UN General Assembly based on a major study to strengthen the UN's rapid reaction capability. The Department believes that, despite the appropriateness of this initiative, its future is unclear at this time, given the fiscal and other constraints of the UN.

6.66 In recent years, the UN has had difficulty in responding quickly and effectively to emerging crisis situations. The critical lesson of the Rwanda experience, for example, is that modest but timely intervention can make the difference between stabilizing a situation and having it spiral out of control. These considerations, in the Department's view, argue strongly for a more effective UN rapid reaction capability.

6.67 In response to the highly publicized genocidal massacre that took place in Rwanda, the Minister of Foreign Affairs highlighted the need for an in-depth review of options to strengthen the UN's rapid reaction capability in times of crisis. Over the subsequent year, the Department and National Defence, in collaboration with other government agencies such as the RCMP and CIDA, conducted a major study. The study led to a report entitled, "*Towards a Rapid Reaction Capability for the United Nations*", which was submitted in September 1995 to the fiftieth session of the UN General Assembly.

6.68 The report's central objective is "to recommend changes at all levels of the UN system that would give the UN an enhanced capability to respond rapidly to crisis situations" (see Appendix 2).

6.69 Canada is working to gain support for the main recommendations of the report. In view of the current fiscal situation, and the longer-term implications for cost and reallocation of resources, approval may not necessarily be viewed sympathetically by many members. The Department is hopeful that at least one of the recommendations — the establishment of an operational-level headquarters — may still be possible in a reduced version in the short term. This aspect may be implemented by contributions from individual countries. The Department hopes that these headquarters will prove to be useful and that this success will help persuade member nations to fund the headquarters as part of the UN.

6.70 Changes to scale of assessment.

Canada has taken the position that the scale of assessment must be simplified and made more equitable. The scale of assessment is the formula used by the UN to calculate the assessed shares of members, for both the regular budget and the peacekeeping budget. Assessed shares are supposed to be based on the principle of “capacity to pay”. The practice has been to use national income adjusted for certain factors. However, several distortions have developed over time as a result of adjustments made to national income figures. The assessed shares of many members, based on the current scale, no longer correspond to their true capacity to pay. For example, the Department indicated that Japan’s share appears to be lower than its capacity to pay and Russia’s is higher, based on their reported national income figures.

6.71 Canada, like certain other Western nations, may be paying more than its fair share if national income is considered the sole criterion for capacity to pay (see Appendix 3). We have encouraged Foreign Affairs and

International Trade to calculate what the impact would be on its share if the position it has taken on this matter at the UN were adopted.

6.72 The Department believes that while Canada and certain other members support change to the scale of assessment, it is unlikely that General Assembly acceptance will be obtained in the near future. The political will to resolve this issue is not yet evident.

6.73 Canada, together with other members, has been active in several working groups on this issue. There are various proposals for removing some of the distortions. A proposal made by the European Union was put forward recently. If it is accepted, Canada’s share will decrease to 2.9 percent from the present 3.1 percent, according to the Department, and could conceivably result in savings of over \$9 million annually in assessed share, based on the UN’s current annual expenditures for general and peacekeeping purposes. A more equitable formula might persuade members to pay their assessed shares and possibly catch up on their arrears. The resulting improvement in the UN’s peacekeeping budget would enable the UN to play a more proactive role in peacekeeping, particularly in providing appropriate resources to missions.

6.74 There was hope for considerable support for change. The issue has been scrutinized by a number of advisory committees at UN headquarters. The recommendations of these committees will be considered by the General Assembly some time in 1996. Since this issue has fundamental financial significance, it will require the consensus of the General Assembly to be accepted. However, departmental officials believe that this support may not be possible at this time.

The Department believes that while Canada and certain other members support change to the scale of assessment, the political will to resolve this issue is not yet evident.

The assessed shares of many members, based on the current scale, no longer correspond to their true capacity to pay.

The overall cost to Canada of its participation in peacekeeping is unclear.

The Department's view is that, given Canada's commitment to the UN, Canada needs to continue its efforts to bring about reform despite the slow progress.

6.75 Operational level. Canada is promoting, among other initiatives, a revised budgetary and reimbursement system for peacekeeping operations (see Appendix 4). In addition, several Canadian officials are on loan to the UN Department of Peacekeeping Operations to assist in streamlining administrative and management systems.

6.76 In summary, the above examples show that officials have been active in a variety of ways to assist the reform effort. Canadian efforts are appreciated by UN management; however, despite these efforts, we believe that reform at the political/institutional levels will be difficult to achieve in the short term. Such reform requires a consensus that is not easily obtained and usually requires lengthy negotiations among members whose interests are often fundamentally different.

6.77 The Department indicated that the UN system is the only internationally accepted mechanism that, in the right circumstances, has the potential to contribute to peace and security. Therefore, its view is that, given Canada's commitment to the UN, Canada needs to continue its efforts to bring about reform despite the slow progress. We agree with the Department, but we believe that it would be appropriate for the Department to do an assessment of its efforts to date and, if necessary, consider other approaches to reform. This observation is consistent with what we said in our 1991 Report Chapter 12, "Membership Payments to International Organizations": develop a more innovative approach to effecting reform in areas that have not changed substantially in spite of sustained efforts by Canada over many years, both alone and with other countries. The chapter referred to options that could be

explored in the area of administrative reform.

6.78 Canada could contribute, in partnership with other countries, to bringing about much-needed reform of the UN. A more proactive and creative approach may be necessary if Canada wishes to make a difference.

The Cost of UN Peacekeeping to Canada

Peacekeeping costs have risen sharply in recent years

6.79 The overall cost to Canada of its participation in peacekeeping is unclear. Costs are incurred by several government departments/agencies. Some are incurred at headquarters, others in the field. Some are easily quantifiable, others are not. Some are reimbursable by the UN, others are not. Furthermore, whether it is more appropriate to use incremental or full costs of National Defence's participation depends on what view is taken of its role in peacekeeping.

6.80 Peacekeeping is not listed as a government program, nor is it identified as a distinct line of activity in either Foreign Affairs and International Trade or National Defence. Thus there is no separate budget for peacekeeping and no report is provided on its cost to Canada. Foreign Affairs and International Trade views participation in UN peacekeeping as one of the ways in which it supports the UN and at the same time serves Canada's security objectives. National Defence views peacekeeping as a task that its trained multipurpose force is required to undertake from time to time at the specific request of the government.

6.81 To examine peacekeeping costs, we reviewed expenditures incurred directly in support of a specific mission and expenditures incurred to support UN

peacekeeping activities generally. We found that financial data are compiled by different departments on their contribution to specific missions. Data on non-mission-specific costs have not been compiled and aggregated by any department.

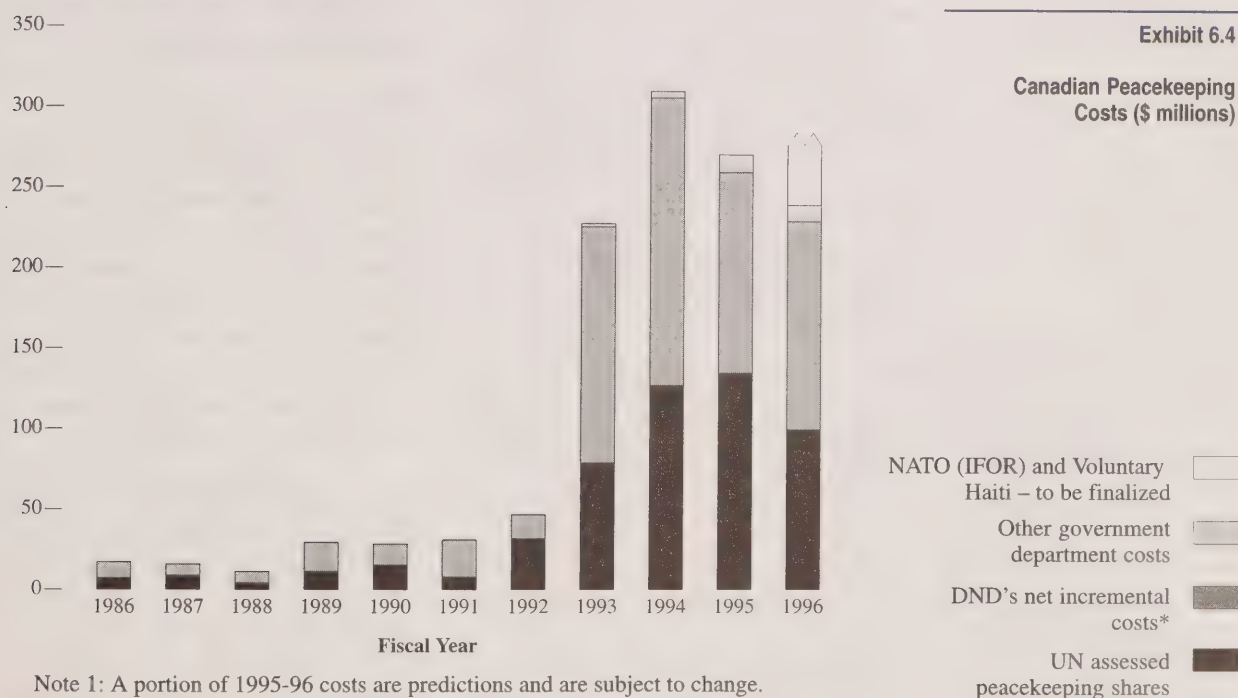
6.82 We are reporting only on mission-specific costs. To do this, we brought together cost information from a number of sources. Mission-specific costs include:

- Canada's assessed share paid by Foreign Affairs and International Trade;
- incremental National Defence costs; and
- costs incurred by other government departments/agencies.

6.83 Exhibit 6.4 provides an overview of the mission-specific financial costs to Canada for the period of financial year (FY) 1986 to FY 1996. As shown, these costs have risen sharply in recent years, from \$47 million in 1991-92 to an estimated \$240 million in 1995-96, an increase of 410 percent. On a cumulative basis, these costs total an estimated \$1.1 billion from 1991-92 to 1995-96 inclusive (composed of \$475 million in UN peacekeeping assessments, \$832 million in National Defence incremental costs less \$236 million recovered by National Defence from the UN so far, and \$27 million in costs incurred by other government departments).

6.84 If the cumulative cost of peacekeeping to Canada included National Defence's full costs (as opposed to only its

Mission-specific costs have risen sharply in recent years.



Source: Department of National Defence, Department of Foreign Affairs and International Trade, and other government departments.

Canada is obliged to pay its assessed share of each peacekeeping mission whether or not it decides to participate in the mission.

incremental costs), as calculated by National Defence, the number reported for the same period (1991–92 to 1995–96) is estimated at \$3 billion. The full cost approach is not used by National Defence for decision-making purposes. We were informed by National Defence that it provides information on full costs in order to give full visibility to Parliament and the public on its peacekeeping activities.

6.85 In addition to the above-noted costs, Canada is contributing about 1,000 troops to the new 60,000-strong NATO-led peace implementation force (IFOR) in Bosnia. IFOR has taken over from UNPROFOR to oversee the implementation of the Dayton peace agreement. Canada's assessed share of NATO common costs is being estimated for 1995–96 by National Defence. In addition, Canada will have to bear the full burden of its participation, which it would not have had to do if the mission had remained a UN mission. There are also costs associated with Canada's decision in March 1996 to participate voluntarily in Haiti. These costs had not been finalized at the time of our audit; however, they are identified in Exhibit 6.4 as additional costs of peacekeeping to Canada for which the full magnitude has yet to be determined.

6.86 Despite the recent sharp increases in reported peacekeeping costs to both departments, these costs still represent a modest proportion of their respective budgets. In 1994–95, Canada's assessed share of \$135 million represented about 9 percent of the budget of Foreign Affairs and International Trade, and incremental National Defence costs of \$211 million represented about 1.8 percent of the budget of National Defence.

6.87 **Canada's assessed share.** As a member of the UN, Canada is obliged to pay its assessed share of each

peacekeeping mission authorized by the Security Council whether or not it decides to participate in the mission. This amount has increased progressively in recent years as a result of the significant increase in the number and size of UN missions. It went up from \$32 million in 1991–92 to \$79 million in 1992–93, to \$128 million in 1993–94, to \$135 million in 1994–95 and down to an estimated \$100 million in 1995–96.

6.88 UN rules require members to pay their dues within 30 days. Canada has generally paid in full and on time; in fact, sometimes it has paid earlier than required. Internal auditors of Foreign Affairs and International Trade noted in late 1994 that early payments of dues to the UN and its specialized agencies had cost Canada \$325,000 in imputed interest costs during 1993–94. The Department informed us that it has since reconsidered the benefits of paying before the due date and discontinued the practice.

6.89 As mentioned earlier in the chapter, many members are seriously behind in paying their dues, for both the regular and the peacekeeping budgets. One result is that the UN owes an estimated US \$1 billion to troop contributors, including significant sums to Canada. The Department believes that it does not have the right to unilaterally offset the amounts owed to Canada against assessed shares paid to the UN.

6.90 **Incremental National Defence costs.** National Defence (DND) calculates "full DND cost" and "incremental DND cost" for each mission in which it is involved. "Full DND cost" is defined as the cost of the operation to National Defence. Included in this cost are civilian and military wages, overtime and allowances, full costs for petroleum, oil, lubricants, spares, contracted repair and overhaul, as well as attrition (including

depreciation) costs for all equipment involved.

6.91 “Incremental DND cost” is derived from “full DND cost” by excluding fixed costs such as salaries, normal operating costs and depreciation on equipment, and other overhead costs that would have been incurred by National Defence whether it participated or not. In short, incremental DND costs are directly attributable to National Defence for sending troops and equipment and providing goods and services specifically requested by the UN. “Incremental DND cost” is used by National Defence to determine “affordability” for a given mission.

6.92 Incremental DND costs can vary significantly from mission to mission in their magnitude and composition. The examples of two recent missions, UNPROFOR in the former Yugoslavia and UNAMIR in Rwanda, illustrate this point (see Appendix 5).

6.93 Although the loss of life or a permanent disability cannot be quantified in human terms, there are direct costs associated with Canadian troops killed or disabled while on peacekeeping duty that have not been reported as a cost of peacekeeping. National Defence points out that the costs of death and disability are “centrally funded and administered outside of DND”. The fact remains that death and disability represent costs of peacekeeping that are not provided separately in any department’s Estimates.

6.94 Incremental DND costs have risen sharply in recent years, for the same reason that Canada’s assessed share has gone up: the increase in the number and size of missions. These costs were \$ 30 million in 1991–92, \$158 million in 1992–93, \$231 million in 1993–94, \$211 million in 1994–95 and an estimated

\$202 million in 1995–96. These costs represent the greatest component of the overall cost to Canada of peacekeeping.

6.95 Costs incurred by other government departments and agencies.

Other departments and agencies, such as CIDA, RCMP, Elections Canada and Revenue Canada, may get involved from time to time in specific missions. This is particularly true of the more recent ones in which there has been a much greater need for intervention in non-military areas, such as the maintenance of civil law and order and monitoring of elections. For example, under an agreement between Foreign Affairs and International Trade and CIDA, the latter is using Official Development Assistance funds for the cost of 100 Canadian police officers serving with the UN mission in Haiti. Other examples are Elections Canada officials monitoring elections in Namibia and Revenue Canada officials monitoring sanctions against Serbia. However, these costs are much smaller compared with Canada’s assessed share or the incremental costs of National Defence (see Exhibit 6.4).

6.96 Non-mission-specific costs.

Non-mission-specific costs are costs that are incurred for peacekeeping-related activities but that are not attributable to a specific mission. The subsidy of \$10 million over five years to the Pearson Peacekeeping Centre, equally shared by Foreign Affairs and International Trade and National Defence, is one such cost. Other examples are the incremental costs of foreign allowances, accommodation, travel, meals, facilities and other costs associated with Canadian officials on loan to the UN’s Department of Peacekeeping Operations; development of proposals designed to improve UN peacekeeping operations; organizing conferences and meetings related to specific proposals; and

Incremental DND costs are directly attributable to National Defence for sending troops and equipment and providing goods and services specifically requested by the UN.

Direct costs associated with Canadian troops killed or disabled while on peacekeeping duty have not been reported as a cost of peacekeeping.

CIDA provides significant amounts of humanitarian assistance through UN agencies. The expanded definition of UN peacekeeping could arguably include such costs.

administration involved in obtaining reimbursements from the UN. In our view, these costs should be reported to Parliament as peacekeeping costs in any compilation of the overall cost of peacekeeping to Canada.

6.97 CIDA humanitarian assistance is not viewed as a direct peacekeeping cost. It is also important to note that CIDA provides significant amounts of humanitarian assistance through UN agencies and international and Canadian non-governmental organizations. CIDA has pointed out that its interventions are carried out in pursuit of its own developmental and humanitarian mandate and not primarily because a UN mission is active in the conflict area. We have therefore not included CIDA costs in our analysis, although it seems to us that the expanded definition of UN peacekeeping set out in paragraphs 6.17 to 6.23 could arguably include such costs.

Canada's Administration of Reimbursements from the UN

Improvements are needed

6.98 We have three main concerns in the area of financial administration.

First, as at 31 March 1996, about \$92 million was receivable from the UN; this will require continued diligence to collect. Second, Canada has not billed the UN for death and disability payments. Third, National Defence's accounts receivable were understated by at least \$36 million as at 31 March 1995.

6.99 UN missions are funded by all members. The UN uses peacekeeping funds collected from its members, based upon the scale of assessment, to cover the mission operating expenses and to reimburse certain eligible costs to troop contributors. In theory, costs incurred by troop contributors are shared by all

member states. In practice, however, because the UN uses standard rates of reimbursement for troops and equipment depreciation, reimbursement received by "higher-cost" countries, such as Canada, is usually not sufficient to cover the costs incurred by them, and may be more than sufficient to cover the costs incurred by "lower-cost" countries.

6.100 What does the UN reimburse?

The UN reimburses troop-contributing nations for the following:

- troop costs at a rate of US \$988 per person-month, plus \$291 per person-month for specialists, and up to \$70 per person-month for other factors;
- Letters of Assist (contracts for goods and services with the UN);
- consumable supplies and equipment depreciation; and
- death and disability while on UN duty.

6.101 In addition, the UN pays a per diem food and lodging allowance directly to military observers, non-military personnel, and other staff for which the UN is responsible, such as RCMP officers serving in Haiti (US \$123 tax-free per person for the first 30 days, and \$87 per day thereafter).

6.102 Administrative requirements to obtain reimbursements from the United Nations. Reimbursements are made to troop contributors by the UN in accordance with administrative guidelines produced for each peacekeeping mission. These guidelines vary little from mission to mission.

- Troops costs are paid automatically by the UN based upon troop strength reports collected by UN officials in theatre.

- Letters of Assist are reimbursed on the basis of invoices supported by detailed documentation submitted to the UN.

- Consumable supplies and equipment depreciation are reimbursed on the basis of a detailed inventory of eligible items brought to the theatre by the contingent (in-survey), and an inventory of eligible items taken out at the end of a mission (out-survey).

6.103 How does Canada administer its peacekeeping transactions with the UN? Foreign Affairs and International Trade views its role primarily as that of paying Canada's UN-assessed share in full and on time for each peacekeeping mission. The Department informed us that it does not assume any accountability for the administration of reimbursements from the UN. In its opinion, National Defence is fully responsible and is expected to fulfill this function with support from Canada's Permanent Mission to the UN as and when needed. National Defence staff acknowledge that a more proactive role of Canada's Permanent Mission to the UN is crucial to the collection function.

6.104 Canada's Permanent Mission to the UN acts simply as a receiving and forwarding agent between the billing and collection group in National Defence and the appropriate section in the UN. Its role in follow-up, collection or accounting depends upon instructions from National Defence. We were informed that the permanent missions of certain other member states are actively involved in the administration and reimbursement process.

6.105 As of 1 April 1995, we were informed that National Defence assigned four staff fully to the UN reimbursement function whereas in the past, staff were not dedicated to this function. The same

staff are also required to travel periodically to UN headquarters to consult with UN officials, and frequently to the missions in theatre to gather documentation needed to support invoices.

6.106 Where do reimbursements from the UN go? Canada has recovered \$277 million from the UN during the last twelve years, with the bulk of it in the last four to five years (see Exhibit 6.5). Until 1993-94, most revenue recovered from the UN was credited to the Consolidated Revenue Fund. In the last two years, National Defence has retained a total of \$36.4 million to offset its increasing incremental costs, related primarily to the increasing use of Letters of Assist by the UN.

6.107 Incremental DND costs are absorbed by National Defence within its budget. It has not received any extra funds for peacekeeping activities other than the \$10 million that we were told was added to its reference level in 1976. National Defence is currently negotiating with Treasury Board for approval to retain all future recoveries from the UN to cover its incremental costs, because the amounts

Canada has recovered \$277 million from the UN during the last 12 years.

Exhibit 6.5

Reimbursements Received by Canada from the UN (\$ millions)

Fiscal Year	Total UN Revenue Received	Revenues returned to Consolidated Revenue Fund	Revenue kept by DND
1985-86 to 1990-91	40.4	40.4	.0
1991-92	15.3	15.1	.2
1992-93	11.5	11.0	.5
1993-94	51.7	51.4	.3
1994-95	86.1	79.7	6.4
1995-96*	71.9	41.9	30.0
Total	276.9	239.5	37.4

* partial figures up to 28 February 1996

Source: Department of National Defence

involved have become much larger. We were informed that Treasury Board is likely to approve the Department's request. We would encourage National Defence to also seek a change in its vote wording to make the authority more specific for retaining recoveries from the UN.

6.108 Amounts collectable from the UN. In order of priority, the United Nations reimburses troop costs, Letters of Assist (LOAs), consumable supplies and equipment depreciation. The problem of slow recoveries is related primarily to the latter three costs. An LOA claim cannot be certified unless it is properly documented and supported with evidence. Often the evidence required has to be obtained from the mission in theatre. It is therefore important that field staff be familiar with UN documentation requirements and that prearranged procedures be in force to collect such documentation. According to UN officials responsible for processing claims, those countries that submit their claims in a complete and timely manner are likely to get reimbursed first. Meeting the UN's procedural requirements is often difficult and time-consuming. As experience has shown and the following examples illustrate, it is very difficult and sometimes impossible to get the evidence after the fact:

- compensation under a Letter of Assist for 51 vehicles (trucks valued at \$232,000) sold to the UN has been delayed because of missing documentation; and
- a total of 131 vehicles (various types valued at \$1.9 million) taken by National Defence since 1992 on the UNPROFOR mission were lost or destroyed. Documentation to obtain reimbursement was sent to the UN in January 1996.

6.109 Another example of compensation collectable from the UN is for death and disability suffered while on UN peacekeeping duties. The UN compensates member nations for payments awarded by them to the soldier or soldier's family. However, Canada has not yet billed the UN for death and disability compensation for personnel other than military observers. We were informed by National Defence that, during the past few years, it has been working to address this issue of compensation. Officials are currently working to conclude 14 case files, representing claims for deaths incurred over the past five years, and to prepare them for submission to the UN for compensation. The precise amount recoverable has not been ascertained and will be finalized only through negotiations with UN officials. With respect to the incidents of death and disability prior to 1991, we were informed by National Defence that the amount of lost revenue could amount to "millions of dollars". Canada, like many other nations, appears to be in arrears with respect to pursuing compensation in this area. Certain other countries, although not all, have been much more active in billing the UN for death and disability (see Exhibit 6.6). Our concern is that any past inattention to this important aspect of financial management not be repeated in future years. In our opinion, Canada needs to continue to actively pursue the submission and settlement of claims relating to death and disability.

6.110 At the time of our audit, amounts receivable by Canada from the UN for troop costs, Letters of Assist, consumables and equipment depreciation up to 31 March 1996 were about \$92 million. This includes \$17 million for Cyprus that National Defence believes can be collected only if contributions are

received by the UN for this voluntary mission. The \$92 million does not include unbilled amounts for death and disability.

6.111 Billings. We were informed by National Defence that invoices were prepared in accordance with departmental and UN procedures at the time of submission. However, the changing policies and procedures of the UN, most applied retroactively, have resulted in a requirement to provide additional information prior to the UN reviewing the invoices for payment. In other instances, Canadian and UN policies and procedures are in conflict and further negotiations are therefore required to settle reimbursable amounts. National Defence claims that it actively pursues settlement of all outstanding invoices. It acknowledges that it takes time to get its bills to the UN in some instances, but points out that it has only a small team handling the time-demanding task of costing and preparing invoices to meet UN requirements. It also emphasizes that the UN should not be viewed as, and compared with, a private sector organization. In National Defence's view, the UN is a huge bureaucracy with its own administrative rules and multiple levels of approval. Practices of billing and collection that are normal in the business world are not necessarily fully applicable to the UN.

6.112 Recoveries from the UN are also a function of the availability of funds. The organization's serious cash shortage impedes recoveries, despite best efforts, simply because the UN does not always have the cash to make payments on a timely basis. Recently, peacekeeping funds have been used to meet regular budget expenses. The amount of funds available may influence the UN's decision on when, how much, and whom to reimburse. We were informed that a

higher priority may be given to "less wealthy" countries that depend heavily upon reimbursements. The result is that even if invoices are submitted on time, sometimes reimbursement may still not be possible because there are no funds left or the funds available are dependent upon voluntary contributions from other member states. Over \$17 million shown as a receivable at National Defence, owed to Canada for its participation in Cyprus, remains uncollected. It will probably never be collected because funds are unavailable in that account, as a result of a lack of voluntary contributions.

6.113 Understatement of accounts receivable in National Defence's accounts. Canada accounts for all non-tax revenues based on the accrual system of accounting, in which such revenue is recognized and an account receivable set up as soon as a good or service has been provided by Canada. National Defence's accounting system, however, was designed on a basis of accounting in which revenue from the UN is recognized only when an invoice has been sent or a payment has been received, whichever is sooner. Thus, amounts due to Canada for troop costs, consumable supplies and equipment depreciation will not show as receivables because no invoice is required to be sent.

Recoveries from the UN are also a function of the availability of funds.

At the time of our audit, amounts receivable by Canada from the UN up to 31 March 1996 were about \$92 million. This total does not include unbilled amounts for death and disability.

Exhibit 6.6

**Death and Disability Claims
Paid by the UN to Certain
Other Countries (period of
1992 to 15 September 1995)**

	# Claims Processed	Total Amount Claimed US \$ (millions)	Average US \$
Death	159	16.5	104,000
Disability	322	20.8	65,000
Total	481	37.3	

Source: United Nations

There was an understatement of at least \$36 million in the accounts receivable reported by National Defence as at 31 March 1995.

There is need for a more direct role in oversight and monitoring by senior management.

Improvements are possible in the administration of reimbursements from the UN.

Nor will revenue be recognized on a timely basis because the UN is unable to make reimbursements as a result of cash shortages. Only amounts owing to Canada for Letters of Assist are reflected in the accounts because they are based on actual invoices sent to the UN.

6.114 There was an understatement of at least \$36 million in the accounts receivable reported by National Defence as at 31 March 1995. There is a need to introduce full accrual accounting for such revenue items in the accounts of National Defence. We were informed that this situation is being corrected for the fiscal year ending 31 March 1996.

6.115 Improvements will need continued senior management attention in both departments. We believe improvements are possible in the administration of reimbursements from the UN. At the operational level, more attention by personnel in theatre to the UN reimbursement process and requisite documentation for claims will help. Furthermore, more involvement of Canada's Mission to the UN in the administration of reimbursements may be necessary.

6.116 Initiatives taken by National Defence. Many improvements have been made over several years. For example, the number of staff involved in this task has been increased; special teams have been sent to missions in theatre to complete in/out surveys; training on administrative requirements for UN reimbursement has been provided; and Canada has made a proposal for a revised budgetary and reimbursement system for peacekeeping operations (see Appendix 4). The last initiative is an example of one of a number taken by Foreign Affairs and National Defence to reform the UN's peacekeeping function (see

paragraphs 6.55 to 6.77 for other examples).

6.117 At present, Foreign Affairs and International Trade and the Permanent Mission assume no direct responsibility for collecting reimbursements from the UN. The Department believes that this area is the responsibility of National Defence. However, the *External Affairs Act* assigns to the Department the responsibility for the conduct of all diplomatic relations with international organizations such as the UN on behalf of Canada, and Canada's Ambassador to the UN reports to the government through the Department.

6.118 In our opinion, there is need for a more direct role in oversight and monitoring by senior management at Canada's Mission in New York. But in order to do this and because the Mission follows instructions from Ottawa, senior management of both Foreign Affairs and National Defence have to give this area higher priority. The Department's accountability for administration needs to be clarified.

Conclusion and Recommendations

6.119 The post-Cold War period has brought about many fundamental changes. Specifically, in the area of security, the origin, nature and complexity of conflicts have changed significantly. In response, the nature of peacekeeping and the demands that are placed on the UN have also changed in many ways. Peacekeeping mandates and missions are more numerous, more complex and more costly. While peacekeeping in the past was largely a matter of monitoring peace agreements, today's peacekeeping is often expected to address concurrently a vast range of problems: military, political,

humanitarian, health, migration and resettlement, civil law and order, and human rights. The UN is not equipped, nor does it have the resources, to deal with all of them. Furthermore, the UN's own record in peacekeeping has come under close scrutiny; traditional troop contributors are reducing their armed forces; major donors are tackling serious domestic fiscal problems; and the UN itself is faced, for a variety of reasons, with the worst financial crisis in its history.

6.120 Canada has been a long-standing supporter of the UN and its peacekeeping function. It continues to consider the UN as fundamental to meeting its foreign policy objectives. Canada's past record in UN peacekeeping has been laudable and participation in UN peacekeeping enjoys substantial public support. We believe, however, that given the fiscal and other realities in Canada and at the UN, there is a call for greater transparency and openness to better inform Parliament and the people of Canada on all significant aspects of peacekeeping.

6.121 Foreign Affairs and International Trade Canada should:

- **conduct in co-operation with other government departments and non-governmental organizations a "standback assessment" to determine what lessons have been learned;**
- **consider other ways, if any, in which Canada could participate in peacekeeping to meet Canada's objectives, given the fiscal and other realities in Canada and at the UN; and**
- **ensure more public articulation of the nature and extent of participation in specific missions and the potential for obtaining the benefits Canada wishes to derive.**

6.122 Foreign Affairs and International Trade, in consultation with National Defence, the Privy Council Office and the Treasury Board Secretariat, as appropriate, should seek to :

- **obtain designation of a lead department for reporting annually to Parliament on all important aspects of Canadian participation in peacekeeping, and specifically information on:**
 - **all significant costs, implications, and benefits to Canada;**
 - **additional ways, if any, that were considered for participation in UN peacekeeping; and**
 - **efforts made toward UN reform related to peacekeeping, and the results achieved; and**
- **clarify the accountability of Canada's Permanent Mission to the UN for administration related to peacekeeping reimbursements.**

Foreign Affairs and International Trade Canada's response: Foreign Affairs and International Trade Canada concurs in general terms with this chapter of the Auditor General's Report.

The chapter recognizes the importance of peacekeeping as an instrument of Canadian foreign policy and the contributions of Canada as a respected member of the UN. It also notes that the costs of peacekeeping have risen in recent years, due to an increase in the number, size and complexity of UN peacekeeping missions. The Department notes, however, that the costs of UN peacekeeping are likely to decline substantially in coming months and years, due to a drop in the number of new missions, the wind-up of

some of the larger operations and the smaller size of the UN's current operations. It should be noted that Canada pays its assessed shares for these operations to the UN as a matter of legal obligation irrespective of whether we contribute personnel or equipment.

Foreign Affairs and International Trade Canada sees the question of reimbursement of funds from the UN to the Government of Canada as an issue wholly within the purview of the Department of National Defence. National Defence has the technical expertise to calculate the complex formulae governing reimbursement of funds for which it is responsible under Treasury Board regulations. This is especially important as some of the moneys recovered from the UN are retained by the Department of National Defence to defray the operational costs of peacekeeping missions. In the view of Foreign Affairs and International Trade, the lines of financial responsibility on this issue within the Government of Canada are clear.

With respect to information on Canada's commitments to peacekeeping, there is no single source of information on all of Canada's engagements. Moreover, because a number of departments and agencies are involved in modern peacekeeping operations, it would be inappropriate to designate a single "lead agency" in this field. Information on peacekeeping could be reviewed in conjunction with other departments and agencies to ascertain whether additional information could be made available in a consolidated format.

Department of National Defence's response: *The Department of National*

Defence acknowledges that, under the terms of the 1985 Order-in-Council, the audit team may not have had sufficient access to documents necessary to assess fully the extent of information provided to ministers on the military implications of peacekeeping. National Defence also supports the position of Foreign Affairs and International Trade that potential opportunities to consolidate information on Canada's peacekeeping commitments could be explored.

National Defence will continue to play a central, if not increasing, role in the administration of UN reimbursements. The difficulties inherent in the current system of administration are acknowledged even though they are for the most part attributable to the UN, and are largely outside the purview and influence of National Defence. Nonetheless, National Defence's success in obtaining large reimbursements from the UN in recent years, and in calling for, working toward, and obtaining a major reform of the UN's reimbursement process are indicative of the high priority that National Defence gives to administration of these reimbursements.

National Defence notes the observations in the area of death and disability claims, and that further work is required in this area. However, it must be noted that the problems associated with these claims have not jeopardized the benefits bestowed on Canadian Forces personnel and their dependents. The UN system for reimbursement of death and disability benefits is extremely complex and poses a significant administrative burden. It should also be noted that National Defence is pursuing improved arrangements with the UN in this regard.



About the Audit

Foreign Affairs and International Trade Canada is responsible for the delivery of Canada's foreign policy, including advising the government on the nature and extent of its participation in UN peacekeeping. The Department is mandated under the *External Affairs Act* to conduct all diplomatic relations on behalf of Canada and all official communications between the Government of Canada and the United Nations.

Objective

The objective of our audit was to provide information to Parliament on the role of Foreign Affairs and International Trade Canada in the government's decision-making process and to examine its management practices as they relate to Canada's participation in peacekeeping. In this regard, our audit was extended to National Defence in the area of administration because the system for billings and collections is maintained there.

Scope

The scope of our audit was limited to Canadian participation in United Nations peacekeeping missions for which funding was provided through the UN peacekeeping budget. We focussed on the Department's headquarters, Canada's Permanent Mission to the UN, and National Defence for information related to National Defence's incremental costs and the administration associated with transactions with the UN. We reviewed National Defence's costs and related aspects of financial administration in this chapter because its role in peacekeeping is ultimately to support the delivery of Canada's foreign policy, and payments to the UN are effected through Foreign Affairs and International Trade.

Specifically, we examined the following:

- the adequacy of information for Parliament for more informed debate;
- the adequacy of information to ministers for decision making;
- the extent of Canadian efforts to reform the UN's peacekeeping function;
- the presentation of the overall cost to Canada of peacekeeping; and
- the quality of Canada's financial administration of peacekeeping reimbursements from the UN.

We identified the overall cost of peacekeeping to Canada, which was done in the interest of transparency of the information provided to decision makers and parliamentarians, rather than as an effort to weigh the costs and benefits of Canada's participation in peacekeeping.

Criteria

Because the Department is responsible for formulating Canada's foreign policy and all relations with the UN, we expected that it would:

- provide comprehensive information to ministers on all aspects of Canada's participation in UN peacekeeping;

- periodically conduct a “standback” assessment to determine whether Canadian foreign policy objectives were being met in the most cost-effective way, especially given the rapid changes in the global environment;
- determine what lessons had been learned; and
- provide stewardship for the financial transactions incurred with the UN.

Approach

We interviewed officials in both Foreign Affairs and International Trade and National Defence headquarters, at UN headquarters, at Canada’s Permanent Mission to the UN and at certain other countries’ missions to the UN, as well as NGO representatives, consultants and academics in Canada. We examined relevant documents including UN, departmental and other studies; parliamentary debates; and Part IIIs and committee reports. We also met with the Chair of the Standing Committee on Foreign Affairs to better understand the Committee’s interest in peacekeeping and its ongoing needs for information.

We consulted with the Department’s Office of the Inspector General. The Office had not conducted an examination of the management of peacekeeping; accordingly, we could place only limited reliance on the work of the Office.

Audit Team

Rajesh Dayal
Ernest Glaude
Natalie Hétu
Manfred Kuhnappel
Jon Legg
Jacques Marquis
Daniel Thompson

For information, please contact Vinod Sahgal, the responsible auditor.

Appendix 1

Sources of Information on UN Peacekeeping Operations

The Burgeoning Cost of UN Peacekeeping: Who Pays and Who Benefits?, Peter Gizewski and Geoffrey Pearson, Canadian Centre for Global Security, November 1993.

An Agenda for Peace: Preventive Diplomacy, Peacemaking and Peacekeeping, Report of the Secretary General, Office of the UN Secretary-General, June 1992.

United Nations – U.S. Participation in Peacekeeping Operations, General Accounting Office (GAO), September 1992.

UN Peacekeeping – Lessons Learned in Managing Recent Missions, GAO, December 1993.

How Assessed Contributions for Peacekeeping Operations are Calculated, GAO, August 1994.

Renewing the United Nations System, Erskine Childers and Brian Urquhart, Development Dialogue, 1994.

Whither UN Peacekeeping?, Mats R. Berdal, International Institute for Strategic Studies, October 1993.

Charter of the United Nations.

Report to the Secretary-General of the United Nations, Dick Thornburgh, March 1993.

Comprehensive Review of the Whole Question of Peacekeeping Operations in all their Aspects, Report of the Special Committee on Peacekeeping Operations, June 1995.

The Blue Helmets: A Review of United Nations Peacekeeping, United Nations, 1990.

Final Report on the in-depth evaluation of peacekeeping operations: start-up phase, Report of the Office of Internal Oversight Services, UN Headquarters, May 1995.

Report of the Board of Auditors to the General Assembly on the Accounts of the United Nations Peacekeeping Operations for the biennium ended 31 December 1993.

Report of the Board of Auditors on the audit of the Support Account for peacekeeping operations for the period ended 30 September 1995, February 1996.

Monthly Summary of Troop Contributions to Peacekeeping Operations, Department of Peacekeeping Operations, UN Headquarters, January 1996.

Statement to the 5th Committee, Joseph E. Connor, UN Under-Secretary-General for Administration and Management, September 1995.

Statement to the High-Level Open-Ended Working Group on the Financial Situation of the United Nations, Boutros Boutros Ghali, UN Secretary-General, June 1995 and February 1996.

Improving the capacity of the United Nations for peacekeeping, Report of the UN Secretary-General, May 1994.

Investigation of the relationship between humanitarian assistance and peacekeeping operations, UN Joint Inspection Unit, October 1995.

Sharing responsibilities in peacekeeping: The United Nations and the regional organizations, UN Joint Inspection Unit, October 1995.

Appendix 2

The Canadian Study on a UN Rapid Reaction Capability

The objective of the study was to assess the validity and practicality of a variety of policy alternatives. Consultations were held with other governments, non-governmental organizations and intergovernmental institutions. Three international conferences were organized: at Cornwallis, Nova Scotia, in Quebec City and in Montebello, Quebec.

The report makes 26 recommendations for the short, medium and long terms, which, in the report's words, "would give the UN the rapid reaction capabilities it needs to respond quickly and effectively to crisis situations."

According to the report, its principal idea is the "vanguard concept". "Under this concept, the UN would be able to assemble from member states a multi-functional force of up to 5,000 military and civilian personnel and rapidly deploy it under the control of an operational-level headquarters upon authorization of the Security Council. The operational-level headquarters, a new unit to fill a current vacuum in the UN system, would be responsible for the planning and advance preparations, which are crucial if rapid reaction is to work. This concept emphasizes the importance of making significant changes at the operational level of the UN system and with the troop contributors who would provide the trained, equipped forces essential to rapid reaction. Forces would be provided by way of enhanced standby arrangements, which the Secretariat would conclude with member states offering personnel to participate in peace operations. The report includes recommendations to enhance training, explore more efficient systems for logistics and transportation, and bolster the planning efforts of the entire UN system."

Appendix 3

The UN Scale of Assessment

The scale of assessment is the method adopted by the UN in 1946 to apportion the expenses of the UN among its members. It is based on the principle of "capacity to pay". The practice has been to use the national income of each member as a reference point. National income figures are averaged over a number of years, further adjusted to reflect low per capita incomes and debt levels, and upper and lower share levels are set. For peacekeeping operations, the five permanent members of the Security Council are assessed a greater share than their regular budget shares; for example, the U.S. share is 31 percent as compared with its regular budget share of 25 percent.

Over the years, however, members have expressed dissatisfaction that the scale is too complicated, far from transparent, includes contradictory principles, does not reflect capacity to pay and has serious distortions. One example is that some states are paying less than is called for by their share of global income, and some states are paying more. Canada's current ambassador to the UN said, "The current system has serious distortions and no longer adequately reflects members' abilities to pay." Other states agree. The U.S. representative in New York echoed the same sentiment in 1991, when he said: "Unfortunately, the reliance on capacity to pay, and the methodology that has gone into quantifying it, have resulted in distortions in the scale...."

The General Assembly in 1994 authorized an "Ad Hoc Intergovernmental Working Group on the Implementation of the Principle of the Capacity to Pay" to study the question and make recommendations. The Working Group's report, referring to the "Scale of Assessment for the Apportionment of the Expenses of the UN", was submitted on 8 May 1995. According to the Department, several aspects of the scale need to be reconsidered. For example, the present method of debt adjustment is unsatisfactory. Another irritant is the overly long statistical averaging period of 7.5 years. This will be reduced to three years if the Working Group's report is adopted.

The Working Group also addresses the question of purchasing power parity as a possibly more appropriate measure of capacity to pay. The Group concluded that this concept has flaws; for example, data are not available on all countries, and comparability of a common basket of goods and services would be difficult.

Appendix 4

A Revised Budgetary and Reimbursement System for Peacekeeping Operations

At the present time, the mandatory process for seeking reimbursement for depreciation or loss of equipment starts with the completion of the in-survey. The in-survey is the methodology used by the UN to count all equipment and materiel brought to the mission area by the contingent. When the contingent leaves at the end of its mandate, an out-survey is completed and the two surveys are reconciled by the UN to determine reimbursement for depreciation and loss during the tour of the contingent. Unfortunately, the level of detail required by the UN, using standards that are appropriate for missions with little contingent-owned equipment, makes the process unwieldy, especially since the conflict conditions at the peacekeeping site are rarely suitable for this administrative procedure.

Canada developed and received UN authority to try out a standard rate reimbursement methodology in its mission in Haiti. The proposals were based on taking the process used for troop cost repayments and expanding it to incorporate a monthly charge for equipment and services as well. The timing of this initiative coincided with the United Nations' establishment of a five-phase working group to reform the methodology for reimbursement for contingent-owned equipment.

The UN Working group, comprising 57 nations, expanded on the Canadian proposal and developed a comprehensive reform of the complete methodology for reimbursement not only for equipment but also for the support provided to forces in the mission area. The use of standard rates in a negotiated agreement meant that contributions by nations would now be clear, responsibilities for support would be laid out, and the application of standard rates would provide quick budget information for the mission planners.

For Canada, the agreement would provide greater visibility of funds owed by the UN and a clear picture of the quantity of personnel and equipment desired by the UN. If Canada wished to enhance its participation without UN concurrence, the increase would be considered a voluntary contribution, a decision that could be more easily defined and presented to government than waiting until an in-survey is negotiated in the mission.

The report of the Working Group to reform the major component of financing for peacekeeping operations was scheduled to be presented for adoption by the General Assembly in March 1996. The UN Secretariat expects the new system to be in effect by July 1996. At that point many of the problems associated with completing in-surveys, documenting inventories, accounting to the UN for loss or damage and preparing invoices will be eliminated. A series of inspections and verifications to ensure that the provisions of the agreement are being met will be introduced. Reimbursement would then be based on simple compliance reports instead of the current time-consuming, paperwork-intensive process.

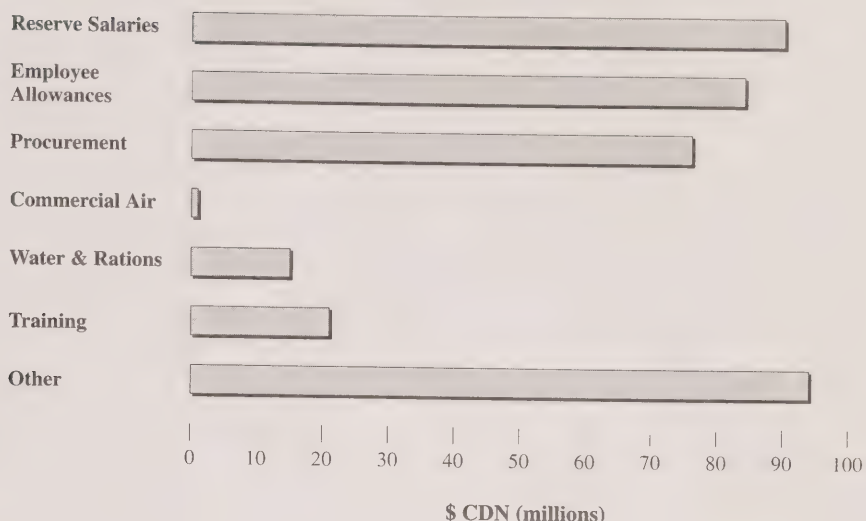
Appendix 5

Incremental DND Costs for Two Missions

Reimbursements from the UN are excluded

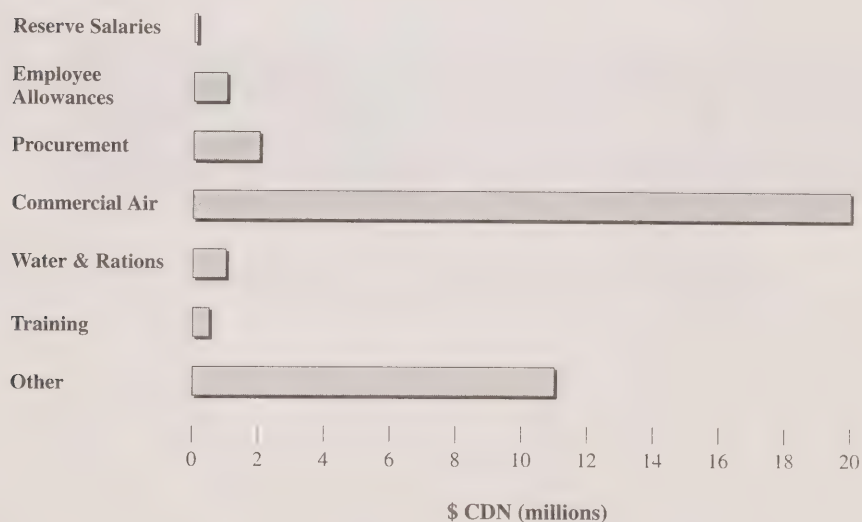
FORMER YUGOSLAVIA (UNPROFOR): INCREMENTAL COST \$379 MILLION (up to 31 March 1995)

(DND's full costs up to 31 March 1995 were \$1 billion)



RWANDA (UNAMIR): INCREMENTAL COST \$56 MILLION (up to July 1995)

(DND's full costs up to July 1995 were \$109 million. Included in the \$56 million but excluded in the chart below is DND's voluntary humanitarian contribution of a field hospital and airlifts for CIDA representing an incremental cost of \$18 million.)



Source: Department of National Defence

Note: "other" includes personnel travel, communications, ammunition, vehicle depreciation for usage greater than that used in normal training and various other expenses.

Chapter 7

Peacekeeping — National Defence

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Peacekeeping — National Defence

Assistant Auditor General: David Rattray

Responsible Auditor: Peter Kasurak

Main Points

7.1 The Canadian Forces have achieved much in their peacekeeping operations and their missions have been marked by individual acts of dedication and bravery.

7.2 The Department of National Defence plans for peacekeeping missions in a fluid environment, often under severe time constraints. It has experienced gaps in its planning for deployments and rotations to missions. The Department, however, has improved its staff system to assess the likelihood of success of the overall mission, to assess the capability of the Canadian Forces to meet the requirements of a mission and to estimate the impact of a deployment on other commitments.

7.3 The Land Forces have retained soldiers in their field force who otherwise would have been cut as part of force reductions. This accounts for 1,600 of the 3,000 extra troops allowed by the government for peacekeeping. Little other increase has occurred to date. Overall, even in the most highly used categories, personnel have not been overtasked for peacekeeping duty. There are still many practical limitations to using the Reserves for peacekeeping.

7.4 Peacekeeping duty in the last few years has revealed serious problems in the Land Force's ability to generate multipurpose forces:

- The Land Force is not completing its collective training plans. Its most comprehensive training exercise was replaced by a much smaller exercise due to peacekeeping-related tasks. Many lower-level exercises planned in the last few years did not take place.
- Significant emergency buys were needed to provide minimum levels of equipment for troops deployed for peacekeeping. In 1995, National Defence concluded that long-standing deficiencies in its armoured vehicles would not allow troops to perform assigned missions within an acceptable level of risk.
- Departmental plans for medical support show that the Department's planned field hospital will not be enough to support the Land Force's operational plans.

7.5 The Department sent \$822 million in supplies and equipment to support the peacekeeping missions we studied. It recorded \$67 million in downward adjustments to stock balances and \$13 million of losses. During our audit, however, the Department could not find a significant portion of the required documentation, and the downward adjustments and losses remain largely unexplained.

Introduction

Canadian Forces Peacekeeping and Its Environment

Canada's defence policy and peacekeeping

7.6 The Canadian Forces have been used extensively on peacekeeping missions. Canada has participated in nearly every United Nations (UN) peacekeeping operation as well as other multilateral contingency operations, such as the Gulf War. Canadian Forces participation in peacekeeping and contingency operations is in support of the Canadian government's foreign policy.

7.7 The largest Canadian peacekeeping operations in recent times — Somalia and the former Yugoslavia — have involved continuing conflict between the warring parties and violent acts directed at Canadian and other peacekeepers. For Bosnia, Canada made

contingency plans to remove its United Nations forces under fire.

7.8 In January 1996, there were 2,040 Canadian Forces members actively deployed on 12 missions including the NATO Implementation Force (IFOR). Peacekeeping has become an important operational concern of the Canadian Forces, as evidenced by the government's increasing willingness to commit naval and air assets. The Department is requesting funds for improved equipment for the Land Force. Canada's policy is to join with other countries in pursuing global peace by improving global relations and arms control, and resolving regional conflict.

7.9 In the 1994 Defence White Paper, the government gave the Department the task of providing effective, realistic and affordable defence services to meet national objectives and international commitments. The White Paper states, "Canada needs armed forces that are able to fight 'alongside the best, against the



Peacekeeping casualty (see paragraph 7.14).

best.” It must do this despite budget cuts and in a fluid, multipolar world.

7.10 The Department has tasked the Maritime, Land Force and Air Command with generating the forces promised to the United Nations for peacekeeping missions. This means providing the necessary personnel, equipment and training. Normally, no additional funding is provided to the Department for peacekeeping operations.

7.11 To participate in peacekeeping, the Department of National Defence must train and equip its forces to an adequate level, assess requests from the United Nations and allies for assistance and recommend appropriate military involvement. It must deploy and sustain peacekeeping forces while ensuring that other defence tasks can also be met. The requirements created by Canada’s involvement in peacekeeping therefore involve a significant portion of the Department’s activities in Canada. Peacekeeping is only one of the many

activities that use the Canadian Forces. Our audit therefore included various issues involved in generating multipurpose forces, such as the adequacy of equipment, training and medical support. The overall objective of our audit was to assess the quality of management practices related to peacekeeping rather than to assess military judgments or achievements. Further details on our audit scope, objectives and criteria are included at the end of the chapter in the section “About the Audit”.

Observations and Recommendations

Peacekeeping Achievements

Canada has made significant contributions

7.12 The Canadian Forces have taken a leading role in United Nations peacekeeping efforts for many years. To gain an appreciation of the contribution of the Canadian Forces we selected

Canadian Forces member assists wounded Rwandan child (see paragraph 7.18).



peacekeeping missions to Somalia, Haiti, Angola, Rwanda and the former Yugoslavia.

7.13 February 1993 saw the peak Canadian presence and participation in peacekeeping operations in those missions, representing six percent of the Canadian Forces.

7.14 As of January 1996, there were approximately 863 Canadian military personnel deployed in active United Nations peacekeeping operations, representing three percent of all military personnel under United Nations command. There were also 1,000 personnel committed to NATO. Since 1990, the Canadian Forces have suffered 116 casualties in peacekeeping operations, including 16 killed.

7.15 Mission tasks. The Department of National Defence conducted an overall evaluation of peacekeeping operations up to 1990, but did not evaluate individual missions. Although there still is no formal evaluation of the Canadian contingents' achievement of their tasks in United Nations or combined operations, we found considerable evidence of their accomplishments.

7.16 In Somalia, the mission objective was to establish a secure environment for the conduct of humanitarian relief operations. The Canadian Forces contributed humanitarian efforts by providing medical personnel to assist local hospitals in Mogadishu and Belet Uen before the arrival of a tactical team; by gaining control of the airport in Belet Uen and re-establishing the local police there; by repairing abandoned equipment and building and reconstructing roads for transport vehicles in Belet Uen; and by educating local civilian authorities in mine detection and avoidance. Individual Canadian Forces members also used their

rest time to participate in other civil development projects.

7.17 In Haiti, the mission objective was to help the democratic government maintain a stable and secure environment. The Canadian contingent was instrumental in helping to organize free and fair elections without disorder.

7.18 In Rwanda, the first task of the Canadian Forces was to reopen the airport within 48 hours of their arrival. Then they opened a medical clinic in the town of Kibungo to help the United Nations High Commissioner for Refugees and non-governmental organizations treat the local population. They also assessed, planned and repaired a number of buildings to be used by other contingents and humanitarian agencies. On their own initiative, the Canadian troops actively supported over 6,000 children in orphanages.

7.19 Individual achievements. Canadian involvement in peacekeeping missions has earned our country a strong international reputation for excellence. A significant reason for its success has been the leadership, professionalism and bravery of Canadian soldiers. These traits are exemplified in the numerous awards given by the Governor General to Canadian soldiers for their meritorious service and bravery.

7.20 In our sample of missions, over 114 soldiers and officials were decorated for their military deeds, their outstanding professionalism, their devotion to duty or their acts of bravery during peacekeeping service. Exhibit 7.1 provides two examples.

7.21 Our numerous interviews with United Nations staff revealed a clear consensus on the high value of the Canadian Forces' contributions to United Nations peacekeeping operations.

The Canadian Forces have achieved significant success in their assigned tasks on peacekeeping missions. Missions have been distinguished by many individual acts of generosity and bravery.

Military Participation and Information for Decision Making

There have been gaps in deployment planning

7.22 One audit objective was to assess whether staff assessments were adequate to provide military advice on whether and how Canada should participate in peacekeeping missions proposed by the United Nations. We reviewed files on our sample of missions to assess the process that leads to a decision to contribute troops.

7.23 National Defence procedure for supporting such decisions varied considerably from mission to mission, and with each rotation. The Department co-operates closely with staff of Foreign Affairs and International Trade and the United Nations, in a flexible process that depends on the size and timing of the proposed mission. The Minister of National Defence or Cabinet makes the final decision to contribute troops when a formal request is made by the United Nations.

7.24 Before issuing a formal request, the United Nations makes an informal request to Foreign Affairs through its permanent mission to the UN. The Department forwards the request to National Defence, which conducts a “staff check” on its ability to contribute within the United Nations parameters for the

mission, and on any other considerations important to the Canadian government.

7.25 We expected that advice to the Minister or Cabinet on a proposed deployment of Canadian troops would be based on a clear military estimate of the likelihood that the peacekeeping mission overall would succeed. We expected to find a clear assessment of the likelihood that the tasks proposed for Canadian troops were feasible and that the Department would assess impacts on readiness to meet other commitments. (These concepts are found in every recent version of defence policy guidelines for participation in peacekeeping.) We also expected to find that the Canadian Forces would assess their success in performing the assigned tasks and use that information in making decisions on subsequent rotations to the same mission.

7.26 While consensus on the size and mandate of a possible mission is being formed at the United Nations, the departments of Foreign Affairs and National Defence may be called on to consider a variety of scenarios in a short period. The Security Council may choose an option significantly different from those considered. The UN then issues to the Canadian government a formal request to participate. The Canadian government makes its final decision based on the formal request. A reconnaissance mission to the theatre of operations is then conducted to gather information on conditions and logistical requirements.

Exhibit 7.1

Examples of Personal Bravery

A pair of Canadians demonstrated professionalism and bravery by piloting a Sea King helicopter to evacuate a critically wounded Somali and a surgical team. An ongoing battle was raging in the city. Because of the danger, other forces refused to undertake the mission, but the Canadians elected to attempt the evacuation.

Another Canadian rescued three children who were under direct fire near Visoko, Bosnia–Herzegovina. From the observation post where he was on duty, he noticed the children hiding behind the gates in a cemetery. He immediately called for a driver to move an armoured personnel carrier down the road while he ran along the side, protected from the direction of the firing. He then broke cover and hurried the children safely up the ramp into the vehicle.

PARLIAMENTARIANS WANT BETTER INFORMATION ON PEACEKEEPING OPERATIONS

The importance and scope of peacekeeping over the last few years has generated considerable interest among parliamentarians. The current government has made a practice of holding a parliamentary debate before sending sizable contingents overseas on peacekeeping missions.

Chapter 6 of our 1992 Report set out three criteria for government departments providing information to Parliament: relevancy, reliability and understandability. That report also stated that information for Parliament should answer four questions:

- What are the department's mission and lines of business?
- How does the department carry out its lines of business to achieve its mission?
- What are the department's strategic objectives for realizing its mission, and plans for managing the significant public resources under its control?
- How did the department do in meeting its objectives, and how much did it cost?

In this audit, we conducted a review of two separate years of documentary information provided to Parliament: the fiscal years ended 31 March 1993 and 31 March 1995. Our document review focussed on information provided about

criteria for participation in a mission, equipment to be deployed or being used, accomplishment of tasks, training and availability of personnel.

Our review covered a wide variety of documents: the *House of Commons Debates*, testimony before Senate and House committees, *Senate Debates*, *Part III of the Estimates*, the 1992 Defence policy statements and the 1994 Defence White Paper. The table below summarizes our findings.

The contradictions we noted were related to equipment issues, criteria for deployment and accomplishment of tasks.

We also conducted interviews with parliamentarians from all major parties who sit on the Standing Committee for National Defence and Veterans Affairs. We asked them whether they felt our four questions were being properly addressed in information provided by Foreign Affairs and National Defence. We also asked them whether the departments provided information soon enough.

Their comments paralleled our document analysis. Members felt that what information they did receive was generally relevant, reliable and understandable, taking into account that it was very often incomplete. Some noted that the lack of security clearance for MPs was a definite barrier to obtaining complete information.

MPs also noted that the departments tended to provide information on a topic only when specifically asked. Most observed that departments did not provide the information quickly, especially for the House debates on troop contributions. They were unanimous in asking for better information on the actual costs of each mission. They also said they were not provided with information on departmental strategic planning for peacekeeping or with information on evaluation of task achievements.

Officials noted that the government had greatly increased briefings to parliamentarians and the opportunity to debate United Nations commitments. They also noted that they respond to all individual inquiries received from individual members.

Government should consider whether the role contemplated by Parliament is such that there should be a mechanism that would allow MPs concerned with troop deployments greater access to classified documents while respecting parliamentary privilege. The Department should work with the Standing Committee on National Defence and Veterans Affairs to establish an information framework that will address the questions and criteria enunciated in Chapter 6 of the Auditor General's 1992 Report. This framework should enable MPs to obtain quickly all required information.

Summary of Information Provided to Parliament

Information to Parliament on Peacekeeping	Relevant	Reliable	Understandable
Mission and activities of the department	Yes, but incomplete	Contradictions noted	Yes
How the department carries out its lines of business	Yes, but incomplete	Contradictions noted	Yes
Strategic objectives and plans for managing resources	No substantive information provided	No substantive information provided	No substantive information provided
Achievement of objectives and cost	No substantive information provided	No substantive information provided	No substantive information provided

7.27 Departmental officials told us that headquarters staff meet to appraise whether there is a clear and achievable mandate; whether the mission and Canadian tasks are likely to succeed; the potential risks to Canadian peacekeepers; and the impacts of a contribution on defence policy commitments, training and readiness. They also told us that their assessments are often not written, in large part because discussions of the Canadian role and extent of contribution must be held informally with United Nations staff before the actual mandate is approved by the Security Council and before the troop tasks have been identified. The short timelines involved also mean that much co-ordination takes place in face-to-face meetings or by teleconferencing. Officials also told us that they usually conduct such assessments for the first deployment. Ongoing field reporting and other information is used for later rotations.

7.28 Planning for deployments on United Nations peacekeeping missions can be very fluid, often within a compressed time period. In addition, planning is complicated by United Nations manning ceilings that require planners to modify Canadian military units. In our sample of missions, we found that National Defence did not conduct a comprehensive written assessment for each rotation on the feasibility and likelihood of success of the overall mission. We did find, however, that during the course of our audit the Department issued a staff instruction, and a new draft staff procedure requiring this is now being followed.

7.29 Our examination of mission files found evidence of gaps in planning for deployments. For example:

- For the initial deployment to the Balkans in the spring of 1992, we could find no evaluation of the likelihood that the overall mission would succeed,

although the probable Canadian tasks were studied. A proper check of the Forces' capability to contribute troops was made, but due to time constraints a full reconnaissance was not carried out. Although a reconnaissance mission was conducted for the second rotation to Bosnia, the departmental post-operations report criticized its methodology. A full staff study of the situation in the Balkans and Canada's potential future commitments was conducted in August 1992. Another study, which assessed the mission's progress, was performed in May 1993. Beyond these studies, the Department did not analyze each rotation systematically.

- There was no full reconnaissance mission for Canada's first rotation to Rwanda, despite the fact that Canadian troops were taking on entirely new tasks. A full reconnaissance mission was conducted for the second rotation, but subsequent situation reports show that many of the problems it had raised about the tasks assigned to Canada were not addressed.

- Canadian contingents provide operational information to National Defence Headquarters through situation reports and post-operation reports. These reports, however, seldom comment on the overall success of the mission. Although valuable information on the success of Canadian efforts was often sent to headquarters in the missions we examined, it was not then a requirement and it was not always evident how the information was used in planning future rotations.

7.30 All military staff are expected, as they conduct staff checks, to consider the departmental guidelines on participation in peace support operations for deployment. After issuing its staff instruction in 1995, the Department used a more systematic approach in planning the most recent deployment to Rwanda. Officials told us that reports received from

the field are seen and reviewed all the way to the level of the Chief of the Defence Staff.

7.31 With regard to the military advice that was given to the Minister, our access to Cabinet documents, as provided for in the 1985 Order-in-Council, did not enable us to undertake a complete analysis. Sufficient documentation regarding UNPROFOR was obtained to determine that ministers had received some information relating to the likelihood of success of the overall mission, the feasibility of the Canadian role, the impact on the Canadian Forces, and the risk to Canadian personnel.

7.32 The Department should continue with and finalize its improvements to staff procedures for mission planning.

Department's Response: The Department concurs with the recommendation. Action is ongoing and particular attention is focussed on actioning lessons learned in a more timely fashion so that they can be used to support new missions and subsequent rotations to existing missions.

Force Generation

7.33 The level of peacekeeping operations the Land Force has conducted since its deployment to the former Yugoslavia has tasked it to the limit of its designed ready capability. The 1994 Defence White Paper set the goal of being able to deploy a force of 4,000 naval, land and air force troops on three weeks' notice and then sustain it indefinitely in the field in a low-intensity environment. At the peak of its peacekeeping duty in 1993, the Land Force was at, or above, this White Paper goal.

7.34 It is current government policy to maintain a multipurpose combat force. The 1994 White Paper contains the stated

goal that such a force would be able to operate with the modern forces maintained by our allies and be able to fight "alongside the best, against the best."

7.35 *The Report of the Special Joint Committee on Canada's Defence Policy*, which preceded the 1994 White Paper, stated:

Heavy operational demands on the Land Forces, coupled with the fact that units have been manned at only one-half to two-thirds of their established strength, have meant that combat units have been brought up to strength with reservists or soldiers from other units. Some individuals have had two or more tours in two and one-half years. The cost in lowered morale, early departures and reduced efficiency is considerable.

7.36 The report went on to recommend: "The solution to the problem is to increase the manning level of land force combat units in Canada.... This will require 2,500 ... combat personnel ... a further 1,000 ... to upgrade engineers, signals and other combat support units." It estimated the cost at an additional \$210 million per year, with capital investments of \$700 million over five years. The 1994 White Paper translated this recommendation into an additional 3,000 soldiers for the army's field force.

7.37 We set out to ascertain whether the Canadian Forces could maintain its other readiness commitments under the 1994 Defence Policy while generating the ready forces for peacekeeping. We wanted to ascertain whether certain elements of personnel were being overemployed and whether equipment was in danger of becoming unavailable.

7.38 We focussed on the key areas of personnel, use of the Reserves, medical support, and equipment. To what extent are Land Force personnel being overtasked by peacekeeping? Is effective use being made of the Reserves? Does the medical support restructuring now being planned support the White Paper commitments? Is there enough equipment to support peacekeeping operations and still maintain readiness for other commitments? Is the equipment supplied to our peacekeepers adequate?

Tasking of personnel

7.39 We expected the Canadian Forces to have the trained personnel needed to allow them to reasonably sustain current peacetime obligations according to stated defence policy, and to allow them to be ready to respond adequately to contingencies, including peacekeeping missions.

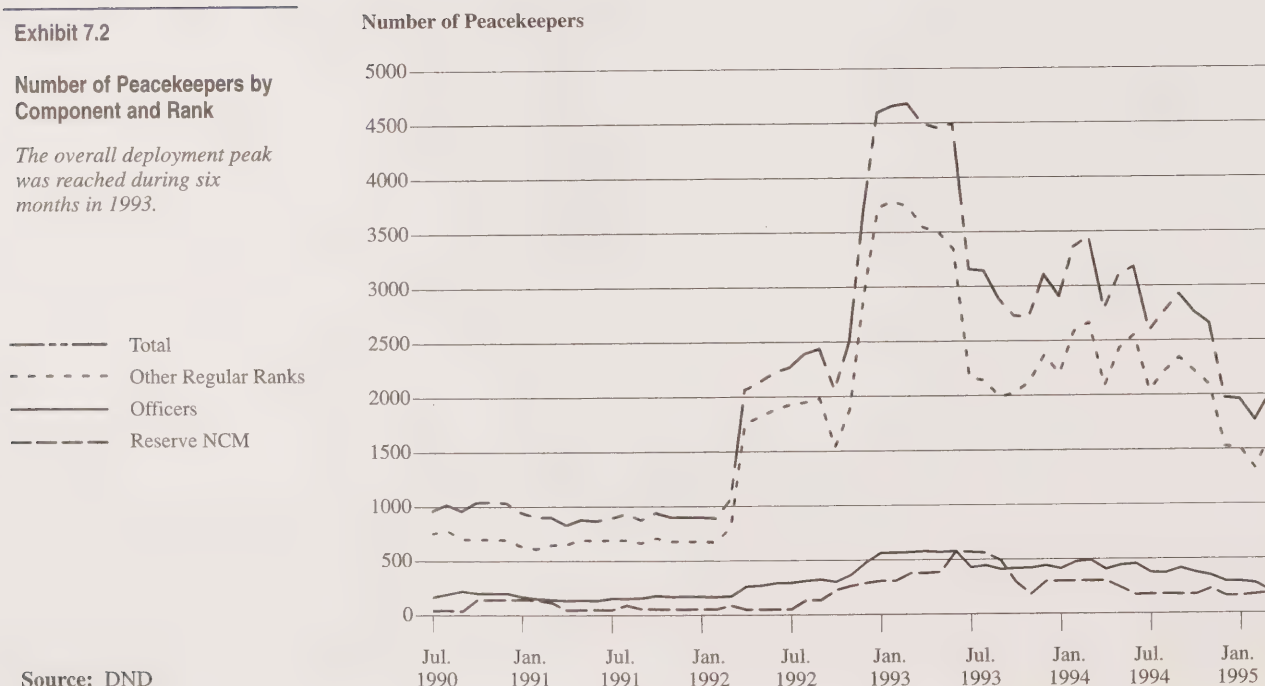
7.40 We summarized personnel data from the Military Personnel Information System on peacekeepers who served between 1990 and early 1995. We compared this with the trained effective strength of the Canadian Forces. During the analysis we noted that the information system does not track the peacekeeping service of air crews or others on temporary peacekeeping duty. Since we were not able to identify a ready source of these data, our conclusions do not extend to these groups. To reach our conclusions, we conducted an exhaustive analysis of each occupation and rank involved in peacekeeping during the five-year study period. We did not examine the frequency of deployment of army units; we focussed on how the personnel are used.

7.41 Overall services. Only a small portion of the Regular Force were serving as peacekeepers at any one time. Until 1992, peacekeeping service was limited to less than 1,000 members of the Force,

Exhibit 7.2

Number of Peacekeepers by Component and Rank

The overall deployment peak was reached during six months in 1993.



Source: DND

roughly one percent. Following the closing of bases in Germany, service peaked in early 1993 at almost 4,000 members, or almost six percent of the effective strength. Since 1993, service has decreased and at the end of 1995 was around three percent, or 2,400 members.

7.42 Regular Force and Reserve Service. Exhibit 7.2 shows the peak of service by the Regular Force in early 1993, followed by a peak of service by Reservists later that year. At least one peacekeeping unit was composed of more than 40 percent Reserves during that year.

7.43 Service by occupation and rank. There have been many anecdotal statements about certain units or

individuals in the Canadian Forces who were sent for three or four tours of duty. The Land Force chain of command was deeply concerned that should the situation in the former Yugoslavia persist, a continuous cycle of tours would become the norm and would have severe personal consequences for its members. However, our analysis indicates that this has not occurred.

7.44 Exhibit 7.3 shows the most severely tasked non-commissioned occupations, showing the average number of days served between 1990 and 1995 for each occupation.

7.45 A typical non-commissioned member of the Regular Force has done just over 50 days of peacekeeping duty

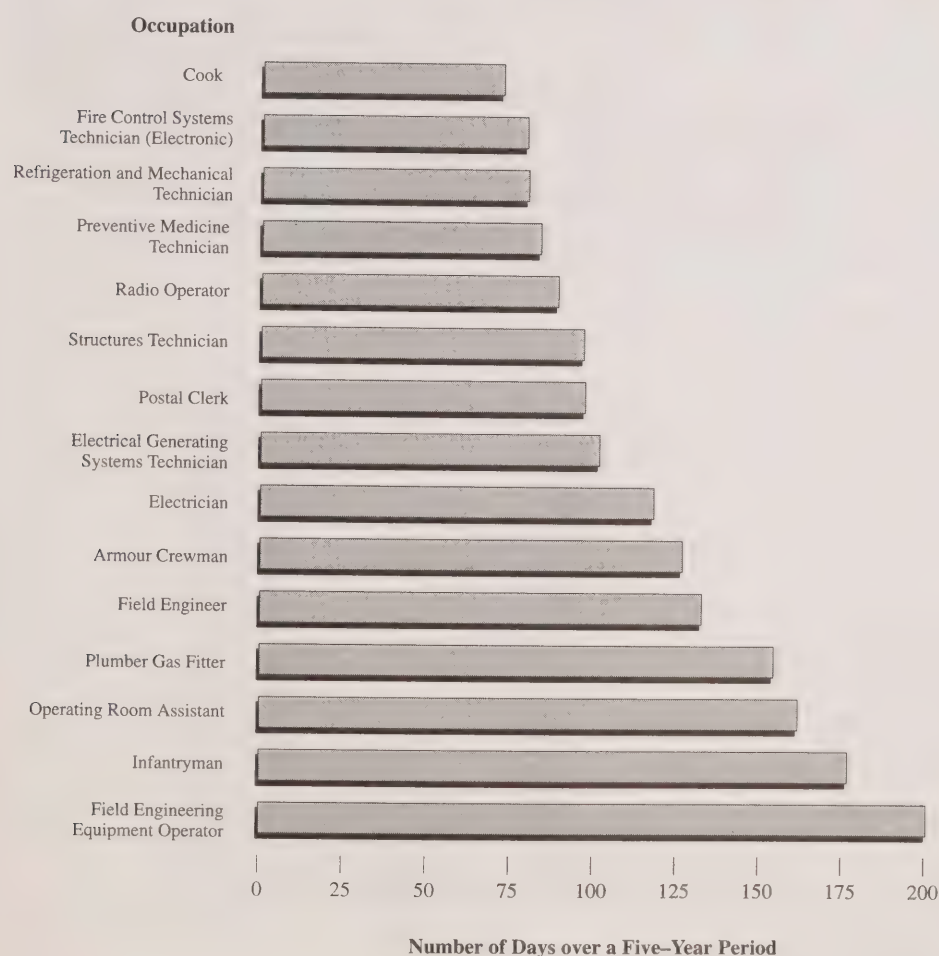


Exhibit 7.3

Average Number of Days Spent on Peacekeeping between 1990 and 1995

Even the most severely tasked occupations were not overburdened.

Source: DND

Although there are exceptions, we found that, overall, peacekeeping has not put an excessive burden on individual members of the Canadian Forces.

during the five years studied. Some of the almost 100 non-commissioned occupations provided only one or two days per member. In contrast, field engineering equipment operators served an average of 200 days per member. Eight of the fifteen most heavily tasked occupations were engineering occupations. Other occupations more frequently called on were those of infantryman and crewman.

7.46 We found that officers (excluding air crews, for whom data were not available) provided slightly less service, with an average of 40 days per member, than did other ranks. The combat arms occupations of artillery, armour and infantry officer were the most heavily tasked. Armour officers provided the most service, an average of 130 days each.

7.47 For non-commissioned members, the level of service decreased among higher ranks. The most active ranks were corporals and privates, with an average of slightly more than 55 days service per

member. The least active rank was chief warrant officer, with only 15 days per member during the period considered.

7.48 In contrast, officers displayed a more even level of service. Except for lieutenants, officers typically served about 40 days over the five years studied.

7.49 Frequency and length of service. In addition to analyzing whether the extent of service is evenly distributed over a particular rank or occupation, we also examined taskings by individual.

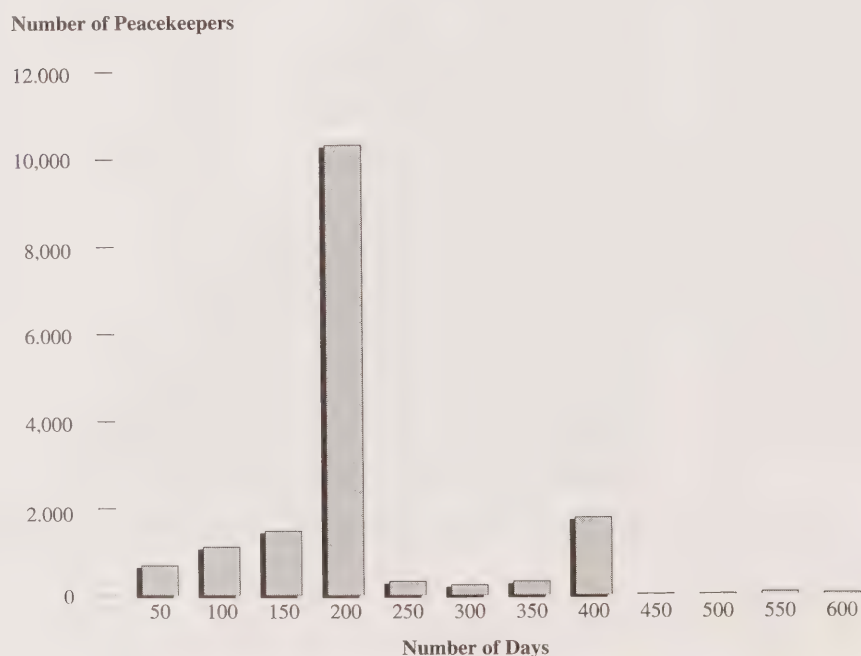
7.50 We found that officers and other ranks displayed similar distributions of peacekeeping service. The majority of peacekeepers had performed between 150 and 200 days of service, indicating one tour lasting six months (see Exhibit 7.4).

7.51 Similarly, officers and other ranks displayed the same distribution of number of tours (Exhibit 7.5). Roughly 80 percent of personnel had served only one tour during the period studied. However, more than 3,000 personnel had two or even three tours during the period studied.

Exhibit 7.4

Distribution of Number of Peacekeeping Days per Non-Commissioned Peacekeeper 1990–1995

Most members of the forces performing peacekeeping duty served about six months.



Source: DND

There were no data on how many of this group had volunteered for additional tours.

7.52 We evaluated the 200 individuals who had the most peacekeeping service in number of tours and length of duty. These peacekeepers came from the occupations indicated in Exhibit 7.6. The exhibit clearly shows that some individuals, in particular those from the Army's combat arms and combat service support occupations, are providing significant peacekeeping service, far beyond the norm for their occupations.

7.53 Impact of Force downsizing.

During the period studied, the size of the Regular Force went from roughly 85,000 to 70,000 and is expected to eventually reach 60,000. To determine the potential impact of downsizing on peacekeeping, we compared the numbers of trained personnel estimated for 31 March 1996 with the numbers at March 1993 (see Exhibit 7.7).

7.54 We noted similar results for both officers and other ranks. No occupation

showed what might have been an excessive burden. While the Canadian Forces have managed the burden of peacekeeping operations on individuals, problems still exist in attaining collective training goals (see paragraphs 7.96 to 7.111). Overall, we found that the Canadian Forces did not place undue demands on any one group to serve on peacekeeping tours. However, as early as 1993, the Land Force became concerned that sustaining two battle groups in the Balkans would make the maintenance of unit cohesion difficult on rotation and would overtask individuals.

7.55 The 1994 White Paper allowed an additional 3,000 troops for the Land field force because of renewed emphasis on multilateral operations. These troops, now estimated to cost about \$135 million a year, were to be reallocated from cuts to overhead occupations. The Department is achieving its goal by adding the 3,000 troops to its planned 1997 field force size. As the existing field force was already 1,600 over the 1997 projections, this meant that it would have to transfer only

Number of Peacekeepers

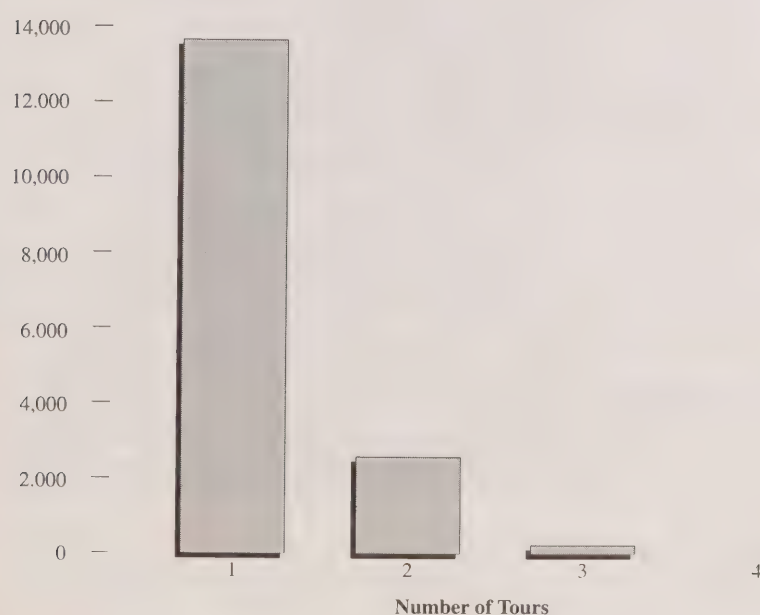


Exhibit 7.5

Distribution of Number of Peacekeeping Tours per Non-Commissioned Peacekeeper 1990-1995

About 80 percent of peacekeepers performed one tour of duty.

Source: DND

1,400 troops from existing overhead. We compared the strength of the field force in November 1994, when the White Paper was prepared, with the strength at December 1995. We found that over that period the field force had increased by only about 50 members.

7.56 The Land Force grew from an average strength of 19,501 in 1992–93, when peacekeeping commitments were at their peak, to 21,797 in 1994–95 and was planned to grow to 23,862 in 1995–96. The Department was unable to provide us with a comprehensive plan for implementing the enhancements to its field force. However, according to officials, the Department will attain its targets on schedule by 31 March 1997.

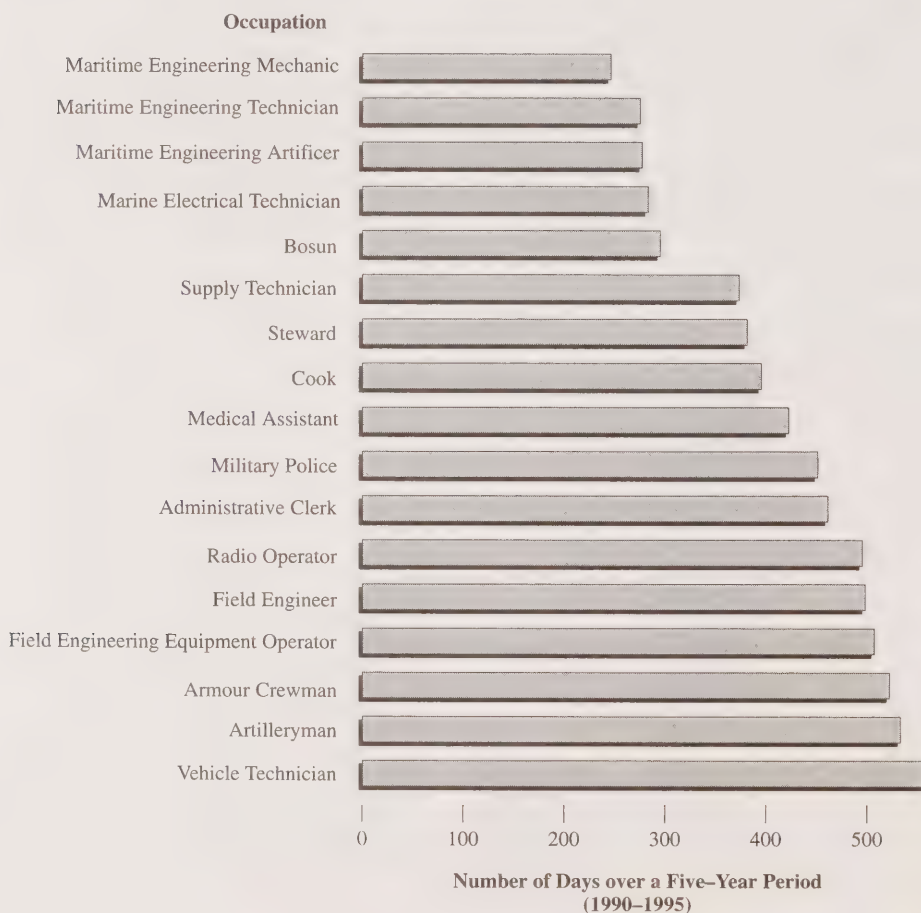
7.57 National Defence should clarify its objectives and plans for providing additional Regular Land Forces in order to achieve the most economical solution to its operational requirements.

Department's response: The operational enhancement of the field force is designed to raise the manning level of units. One of the effects will be to reduce what had been the prevalent practice of augmenting units selected for peacekeeping duty with sub and sub-sub units drawn from other Regular Force units (without eliminating the need for augmentation by the Reserves). This will reduce the disruption to collective training and to other activities aimed at maintaining the readiness of the Land Force. Ongoing planning for restructuring the Reserves, recommended by the Special Commission

Exhibit 7.6

Average Number of Peacekeeping Days by Regular Force Non-Commissioned Members with Three or More Tours

Most individuals serving three or more tours come from a small number of occupations.



Source: DND

on Restructure of the Reserves, will address the issue of their operational capability.

Use of the Reserves

7.58 For the foreseeable future, the Militia will be useful only in providing individuals of lower rank to augment peacekeeping service. For the period reviewed, from 1990 to 1995, the Land Force employed a peak of 600 Reservists at one time on peacekeeping duty. On average, it used about one percent of the strength of the Reserves for peacekeeping. The *Report of the Special Commission on the Restructuring of the Reserves* showed total effective strength of the Reserves at over 26,400 in 1995. The Militia accounted for approximately 18,300 of

this total. The average number of Militia members serving on peacekeeping duty since January 1993 has been just under 300. The Militia has represented more than 90 percent of Reservists serving at any one time.

7.59 We set out to determine whether Militia members were being used in the most cost-effective way. We contacted senior officials at all Land Force area and brigade headquarters and consolidated their views on the proper use of Reserves.

7.60 We found that the many systemic problems in the Reserves that we noted in Chapter 18 of our 1992 Report still prevent the Militia from contributing beyond augmenting with individuals at the lower ranks. In its current state, the Militia

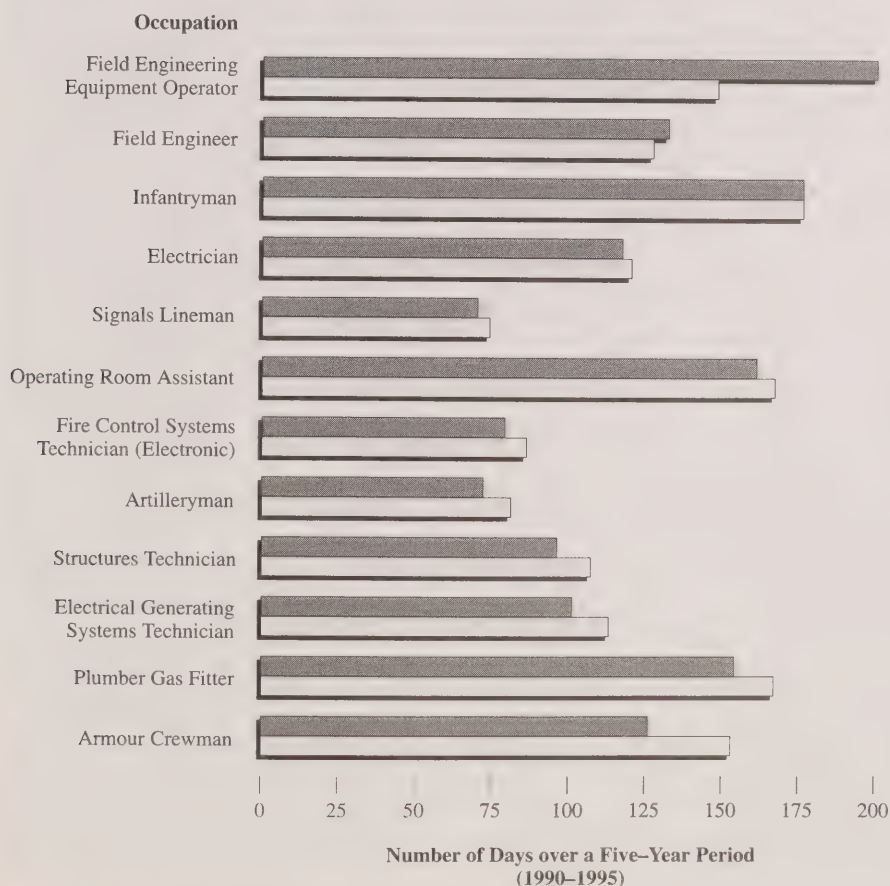
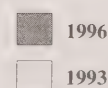


Exhibit 7.7

Average Peacekeeping Days per Strength at March 1993 and per Estimated Trained Personnel Available at March 1996

Cutbacks in strength would not have overburdened any particular military occupation.



Source: DND

DEALING WITH PEACEKEEPER STRESS

Departmental documentation shows that up to 20 percent of Canadian peacekeepers may become stress casualties, suffering from physical and mental disorders as a result of their duty. The nature and level of stress experienced can vary widely according to the circumstances of the individual peacekeeping mission. The Canadian Forces have studied the problem and have begun programs to reduce and treat stress casualties. The success of these programs will depend on the level of support given by commanders at all levels.

Experts regard stress as a continuum and believe that different levels of stress are handled differently by different people. Typical reactions to personal stress include increased illness, increased drug and alcohol abuse, job dissatisfaction and depression. Viewing an horrific event can lead to post-traumatic stress disorder in which the individual's life becomes wrapped up in the event. The obvious organizational impacts of lowered productivity and effectiveness are the outcomes of having troops who suffer from excessive stress. Experts agree that the effects of stress, particularly in military situations, can be lessened by good training, cohesive units, trustworthy leaders and stable family life.

The prevention of stress casualties is important to military commanders, if only for reasons of military effectiveness. During World War II, the United States Army estimated that the ratio of stress casualties to physically wounded among American soldiers was 33 percent in Okinawa, 35 percent in the European campaign and 25 percent in North Africa. Estimates for Israeli soldiers in the 1973 Arab-Israeli war were 23 percent, and statistics for Israeli soldiers fighting in Lebanon in 1984 show that fewer men died than were incapacitated by stress reaction.

The Department of National Defence began studying combat and peacekeeping stress in the late 1980s. Research fell victim to funding cuts but, in response to the current levels of peacekeeping stress,

the Department is now conducting new studies and developing new programs to manage the problem.

We reviewed the stress management research and programs in place at the time of our audit. We expected that the Department would be able to determine the level and sources of stress associated with peacekeeping operations; that it would have programs and practices to deal with stress before, during and following assignments; and that it would determine the effectiveness of its programs and practices over time.

Factors in stress

Leadership. Departmental research in the area of peacekeeper and Canadian Forces morale has defined several key issues related to operational stress. First and foremost of these is leadership. Subordinates' perception that a leader can protect the interests of the group and its members influences the amount of trust and co-operation given to the leader. One study on peacekeepers confirmed that good leadership is important for managing both organizational and individual stress. Difficulties with leadership were found to closely correlate with the physical symptoms of stress reported by the soldiers the Department studied. One major difficulty identified during Exercise VENOM STRIKE (see paragraph 7.97) was the belief of many soldiers and leaders that if they applied the VENOM Rules of Engagement and used deadly force when the Rules of Engagement permitted it, they would not necessarily be supported by their commanders if their action was then reviewed.

Safety concerns. The second most important finding of departmental studies is concern by peacekeepers over their own and their comrades' safety. General concerns, or repeated incidents, can raise the overall stress levels for peacekeepers and result in health problems. In addition, specific life-and-death incidents can in themselves directly create post-traumatic stress disorder, the most severe and disabling variation of occupational stress

known. One departmental study reported on post-traumatic stress disorder in a mixed group of Regular and Reserve Force peacekeepers six months after their mission. The study found that "probable" post-traumatic stress disorder rates for the group were between 10 and 20 percent.

Media coverage. A third finding of the departmental studies concerns the impact of the media. Certain issues, such as the way the media have presented the Canadian Forces in cases such as the Somalia mission, the hostage taking of Canadian peacekeepers, and the disciplinary problems of the Canadian Airborne Regiment have been a source of significant dissatisfaction and stress to members of the Canadian Forces. The impact of media coverage perceived as unbalanced is two-fold: it causes Canadian Forces members to feel misunderstood or unappreciated, and it is seen as having an unsettling effect on family members. The studies indicate that media stories are partly responsible for stress-related health problems found in peacekeepers and the perceived levels of anxiety among family members.

The Department's actions

The Department is taking action in response to its research findings. It has begun, or is continuing, a number of activities to aid in the management of stress. These include:

- understanding and measuring the sources of peacekeeping stress;
- screening members for their military readiness before sending them on a mission;
- continuing military training that can effectively inoculate soldiers against peacekeeping stress. High levels of unit morale, stamina, technical competence, familiarity with and confidence in weapon systems, and field training are all known to reduce stress in soldiers;
- increasing the manning of the Army field force, as required by the White Paper;

- limiting the participation of Reservists in peacekeeping units to 20–25 percent of unit strength to increase unit cohesiveness;

- initiating predeployment stress training, in-theatre support programs and repatriation debriefings for deployed units; and

- continuing research into stress, including the development of videos and brochures on stress.

The challenge for commanders

In spite of the serious efforts by the

Department to put programs in place to manage stress, departmental studies indicate that these programs will not be fully effective unless commanders at all levels demonstrate increased support for behaviours that reduce and help manage stress. Departmental studies show a major impediment to the management of stress is an unwillingness to discuss issues surrounding fear of injury or death. Many personnel suffering from post-traumatic stress disorder believe themselves to be in good emotional health and do not seek assistance for their symptoms.

Departmental health care officials told us that clear and active leadership by senior officers is required to reverse these attitudes and implement the many concrete recommendations made in the studies.

We believe the Department should continue to develop and implement a program to manage stress among its peacekeepers and seek to implement the recommendations of its research programs. The active involvement of senior management and command personnel will be necessary.

cannot support a collective or unit augmentation. Turnover, the lack of time to train, and low turnout for training due to school or job pressures all contribute to a very low level of collective and leadership training. In addition, the problem of voluntary turnout for a given mission effectively impedes the formation of cohesive units.

7.61 The use of Reservists places particular demands on force generation for peacekeeping operations. Reservists must be trained and evaluated separately prior to predeployment training. Support-trade Reservists sometimes require extra supervision in the field. Post-operation reports commented on the utility, quality and training of Militia. Key observations include: the “enormous effort” required at all levels of command to generate and train the required number of Militia soldiers, the lack of leadership skills among the Militia and the requirement for additional supervision in theatre for some ranks and trades. On Land Force Command troop rotations trained in 1994 and 1995, about 20 percent of Militia personnel selected for peacekeeping missions were unable to pass the selection training and evaluation at the lowest level of required individual skills. As a result,

targets for participation of Militia soldiers in contingents deployed are often not met. Contingents routinely deploy with fewer than the authorized number of Reservists because, once training attrition is accounted for, too few Militia members volunteer and pass personnel screening to fill all the slots available.

7.62 The recommendations made in Chapter 18 of the Auditor General’s 1992 Report are still essentially valid. The Department of National Defence should ensure that the many issues relating to the Reserves, and especially the Militia, are resolved quickly.

Department’s response: A number of initiatives in the areas of recruiting procedures, personnel policies as well as pay and benefits address the main recommendations of the Auditor General’s 1992 Report. Additional recommendations flowing from the Special Commission on the Restructure of the Reserves, the related reports from the Standing Committee on National Defence and Veterans Affairs and the Senate Standing Committee on Social Affairs, Science and Technology are scheduled for implementation later this year.

Medical support to operations

7.63 The Department of National Defence is prepared to accept the risk of

About 20 percent of Militia personnel selected for peacekeeping missions were unable to pass selection training and evaluation at the lowest level of required individual skills.

not being able to meet medical support goals for Land Force operations.

Chapter 23 of our 1990 Report noted that although the military hospital system in Canada was severely underused, the medical support system could not meet wartime requirements. A departmental program evaluation confirmed the peacetime focus of the Canadian Forces medical system. Cutbacks to departmental funding made reform imperative.

7.64 The Department is currently completing plans that aim at an operationally oriented, viable and cost-effective Canadian Forces medical support system. The focus has thus shifted to operational capability from peacetime care. We expected the new system to be capable of supporting assigned Canadian Forces missions and tasks, including peacekeeping. While most peacekeeping assignments result in few Canadian casualties, there can be a danger that missions could escalate into more serious conflict involving an intervention force.

7.65 Our audit uncovered no instances to date of inadequate medical support for peacekeeping operations. However, the nature of operations in support of peace is evolving. There are more uncertainties and risks of possible escalation or unforeseen violence that would require medical support. The Department has no specific plans for medical support to peacekeeping, although it prepares a medical support plan for each individual mission. Its plan addresses force generation for multipurpose combat goals, as stated in the White Paper. We therefore concentrated our analysis of the Department's medical support plan on its ability to meet those multipurpose goals. We concentrated on the medical capability needed at "third line": the provision of a field hospital where surgery would be performed. We reviewed published

operational plans of the Department and requirements for minimum medical support. We also conducted interviews with departmental medical and force-structuring officials. We compared documented casualty-handling requirements with the planned capability of Canadian Forces medical support.

7.66 The 1994 White Paper commits the Canadian Forces to be able to deploy anywhere in the world one or more of the following elements:

- a naval task group;
- a brigade group or three separate battle groups with appropriate support;
- a wing of fighter aircraft; and
- one squadron of tactical transport aircraft.

The policy also commits the Canadian Forces to be able to provide single elements or the vanguard components of this force within three weeks and be able to sustain them indefinitely in a low-threat environment. They must also provide the remaining elements of the force within three months.

7.67 Third-line medical care should be able to provide simultaneously for these forces. Any assessment of options for a military response, for peacekeeping or otherwise, must include an analysis of likely casualty rates because of their operational and political significance. Departmental force planners have assumed a mid-intensity conflict for these commitments. Medical planners were instructed to be able to provide for the vanguard force, but to limit their planning to 200 beds. The current capacity is 140 beds. Medical and force-structuring staffs agree that a 50-bed support hospital is sufficient for the operational naval forces and the air forces. The departmental medical support plan will meet these requirements.

7.68 Departmental planners relied on NATO best estimates for casualty rates in a mid-intensity conflict, and calculated that a third-line hospital of 340 beds would be required for the Land Force alone. This number is arrived at using a risk factor acceptable to NATO of 25 percent. That is, there is a one in four chance that casualties will exceed the ability of the medical system to handle them. Departmental planners did not have any reliable estimates of casualty rates for a low-threat scenario such as most peacekeeping missions, but officials told us they have considerable experience. The planners' final report in June 1995 noted that a third-line hospital of 200 beds was an "imposed limitation" and states, "CF and DND authorities will need to accept the associated risk." For example, if all the force components were deployed simultaneously and each of the air and naval forces were allotted 50 beds, a 200-bed hospital would leave only 100 beds for the army instead of the 340 calculated as necessary.

7.69 Departmental officials note that, in the past, NATO operational commanders have not always accepted NATO casualty estimates in their planning. Even though they would be below the NATO standard, they are willing to accept the associated risk. This would mean that if a peacekeeping or joint operation reached mid-intensity and a brigade group of the Canadian Forces sustained casualties at planned rates, they would have to improvise 240 beds in the field if no spare capacity were available from allies. Although the Surgeon General staff has proposed a new medical reserve force to supply additional personnel, this proposal has not yet been implemented. Officials also informed us that surgeons and anesthetists are already at minimum strength to support field operations. Medical staff have proved difficult to

recruit and retain, both in the Regular Force and the Reserves.

7.70 Conclusion. We conclude that the Canadian Forces in effect would not be able to deploy the minimum force described in the 1994 White Paper without arranging with allies for this key medical support element. Given this fact and that the Canadian Forces have not calculated the requirement for a low-intensity scenario, we also conclude that the Department has not properly justified the number of beds it plans to acquire.

7.71 For peacekeeping operations in recent years, Canadian troops have often relied on third-line medical support provided by other countries. This is a normal method of operation for all participants in United Nations missions.

7.72 Departmental officials pointed out to us that the plan is a marked improvement over previous capability. They also pointed out that Canada has not required a 340-bed capacity since the Korean war. While we agree that these facts are correct, we also make the following recommendation.

7.73 The Department should clearly define the medical risks of its proposed 200-bed hospital with respect to White Paper commitments and the most likely operational scenarios.

Department's response: In addition to implementing the plan to develop the 200-bed field hospital, the Department is identifying and investigating the implications of the additional personnel and equipment resources needed to bring this facility to the 340-bed level required to concurrently support the contingency commitments listed in the White Paper.

Adequacy of equipment

7.74 In 1995 the Canadian Forces concluded that long-standing deficiencies in equipment would not

Medical support provisions are below NATO standards. If casualties were sustained at the NATO rate for mid-intensity conflict, a Canadian Forces brigade group would have to improvise 240 hospital beds.

allow troops to perform assigned missions within an acceptable level of risk. To determine whether Canadian Forces members were deployed with adequate equipment, we used our selected sample of missions. We focussed on the APC and Cougar major equipment fleets. We expected to find that equipment deployed would meet the intent of departmental policies and directives and be consistent with documentation developed under the Defence Program Management System. We reviewed capital program documentation and reports produced by troops in theatre. We also attempted to compare equipment deployed by other countries for similar mandates.

7.75 Armoured Personnel Carriers (APCs). The Canadian Forces have known since 1980 of deficiencies in armoured personnel carriers (APCs) used in peacekeeping operations. In 1995, the Canadian Forces determined that these deficiencies would not allow troops to perform assigned missions within an

acceptable level of risk. In August 1995, the government decided to replace and refurbish the fleet of APCs. We did not audit this decision. Exhibit 7.8 shows the potential impact of this replacement program.

7.76 In justifying the purchase and refurbishment, departmental documents stated that the Canadian Forces need modern equipment to face all future requirements, including peacekeeping. "Canadian troops, acting as part of an international force for peacekeeping, coalition or NATO operations, are likely to encounter modern, technically sophisticated weapons and vehicles." According to departmental officials, this deficiency had already been identified in capital project documentation as early as 1980, when a replacement project was approved. The project was cancelled in 1988. A similar project had been approved in 1986, but was cancelled in 1989. A further new project was approved later in 1989 and cancelled in 1992.

Canadian Forces armoured personnel carriers will be replaced with vehicles similar to this Bison light armoured vehicle (see paragraph 7.75).



7.77 Some of the important deficiencies detailed in departmental documentation include the following:

- “There are serious deficiencies in firepower, mobility and capacity.”
- “Protection levels against direct fire weapons, shaped charge threats and mines have proven inadequate.”
- “Self-defence firepower is ineffective against hostile light armoured vehicles due to inadequate weapon calibre, exposure of the fire, and lack of an effective fire control system.”
- “Mobility is marginal.”

7.78 According to the documentation, none of the family of APCs meets the standards of combat capability necessary to perform the assigned mission elements with an acceptable risk to troops.

7.79 The Canadian contingent commanders to UNPROFOR (the mission to the former Yugoslavia) confirmed the APC deficiencies. Even after the APCs were reinforced with gun shield kits, 1992 DND documents acknowledged: “The

M113 APC will still be deficient in terms of its overall protection. Neither the APC itself nor the gun shield will prevent penetration from any round more powerful than the standard NATO 7.62 (rifle) ball. ... the M113 APC will continue to be very vulnerable to anti-tank mines.” As late as 1994, the Canadian contingent commander to UNPROFOR expressed serious concerns. He indicated that the main threat was from individuals armed with weapons up to 14.5 mm, and that protection from that threat was “highly desirable”. In 1995, 85 M113 armoured personnel carriers, 38 Grizzly armoured personnel carriers and 16 Bisons were fitted with additional armour as a temporary measure to protect personnel in the Balkans against small arms fire and mines.

7.80 **Cougar tank trainer.** The armoured vehicle general purpose Cougar is a wheeled vehicle that was purchased in the late 1970s as a tank trainer for armoured regiments and an operational vehicle for low-intensity operations such as UN peacekeeping or internal security.

Long-standing deficiencies in armoured personnel carriers exceed the margins of risk now acceptable to the Canadian Forces.

Exhibit 7.8

Planned Land Vehicle Replacement

Replacement program / APC type	M113 tracked	Grizzly	Bison	LAV 25 (8X8)	Total
Current fleet	1,214	269	199		1,682
No refurbishment	441	6	0		447
To refurbish	773	263	199		1,235
New acquisition				240 ordered 120 option 1* 120 option 2* 171 option 3* 651 total	240
Delivery dates	Not decided	Not decided	Not decided	January 1998 to March 2000 * Not fixed, as option may not be exercised	

7.81 Subsequently, as early as 1981, the Deputy Chief of the Defence Staff addressed a memorandum to the Chief of the Defence Staff on the *AVGP Trials — Cyprus and Canadian Forces Europe*, which confirmed the Cougar's unsuitability as an operational vehicle. The latest document approved by the Department in relation to this vehicle was in March 1993. It describes how "the Cougar was introduced in 1978 as a tank trainer and has since been designated as an operational vehicle by default.... In short, the Cougar does not provide an acceptable armour capability for low-level operations.... If the armour capability for low-level operations is not upgraded, the CF will not have a general purpose combat capability as required. The Land Force will be unable to fulfil its assigned missions and tasks. The current capability deficiency limits Canada's meaningful participation in future coalition and peacemaking operations.... The replacement of the Cougar with an Armour Combat Vehicle is essential if the

Land Force is to satisfy the ... qualitative requirements of low level operations."

7.82 Our review of reports from our sample of missions tends to confirm the documented conclusion that the Cougar is increasingly inadequate for the full range of peacekeeping missions (see Exhibit 7.9). Officials told us that military officers so far have successfully managed the risk. Our review of casualty reports found no direct attribution of deaths or injuries to these vehicles.

7.83 Comparability with other nations. The Department conducted a comparison of equipment provided to one Canadian battalion sent to the former Yugoslavia in 1994. The study concluded that the Canadian battalion had about 70 percent of the capability of a comparable British battalion in the same area with similar tasks. It noted that without emergency purchasing, the level would have been about 40 percent. The study observes that emergency purchasing is not the most efficient method of

Canadian Cougar tank trainer employed in the Balkans (see paragraph 7.80).



rectifying deficiencies. Our audit showed that, on average, these emergency purchases took over 180 days, or one full rotation, to reach the field forces.

7.84 The Department's study compared 48 items of equipment and rated each of them as inferior, comparable or superior, after allowing for emergency buys (see Exhibit 7.10).

7.85 Among items described as inferior were heavy machine gun/light cannon, fragmentation vest, light anti-armour weapon, individual night weapon sights, counter mortar radar, APC (tracked), and the Cougar.

7.86 Our interviews with returning Canadian commanding officers revealed further inadequacies in night vision equipment, global positioning equipment and telecommunications equipment in Somalia.

7.87 When considering the use of the current APC and AVGP fleets on peacekeeping operations, the Department should prepare and make available to decision makers a fully documented assessment of risk.

***Department's response:** The Department concurs with the recommendation. Threat assessments are completed as part of the planning process for all potential Canadian Forces (CF) participation in peacekeeping operations. These assessments are based on the anticipated mission of the CF in the area of operations and recognize the capabilities and limitations inherent in the force structure and equipment of the planned CF contingent. The planning process will ensure that these risk assessments are included in the departmental recommendations to government.*

Training

Training for peacekeeping operations

7.88 Predeployment training is improving, but has often been inadequate. The Canadian Forces have long maintained that general military training is the best preparation for peacekeeping duty. More recently, depending on the mission, the Canadian Forces also conduct mission-oriented predeployment training of varying complexity.

7.89 Due to the evolving nature of peacekeeping operations, we audited the adequacy of predeployment training,

From Somalia:

"Small arms ballistic protection (i.e., up to 14.5 mm proof) element has not been tested in Somalia and is considered to be a serious outstanding deficiency in the AVGP."

"The Cougar is in service with A Sqn, the RCD in the Matavan area of operations. This is probably the most difficult and dangerous area of operations in the Canadian Sector. The Cougar was never intended to be used in operations. It is a 'tank trainer'. Even so it has been deployed to Somalia and in the course of operations has been exposed to tank fire, 120 mm mortar fire and antitank mines."

"Remark: Director, Armour should study the use of the Cougar in Somalia to make appropriate recommendations as to its future use in operations."

From UNPROFOR:

"Main threat is from individuals armed with weapons up to 14.5 mm."

Exhibit 7.9

Vehicle Deficiencies Noted in Operations

including equipment available. We also examined predeployment training of the Reserves. In addition, we reviewed mission records for a selection of peacekeeping contingents deployed since 1992, reviewed equipment records, and examined data from Land Force evaluations of the Reserves for contingent training in 1994 and 1995. We also visited training sites and conducted on-site interviews.

7.90 We found that predeployment peacekeeping training has become more systematic in the last two years. Subsequent to a 1992 departmental program evaluation, which was critical of the ad hoc nature of training for peacekeeping, the Deputy Chief of the Defence Staff issued a document entitled *Training Requirements for Peacekeeping Operations*. This document corrected the view that general training was sufficient training for peacekeeping. It stated that when preparing to deploy, general-purpose military training needs to be supplemented by specific training for peacekeeping. Detailed training guidance, particularly for rotations to the former Yugoslavia, have been issued. However, at least for the last rotations of Operations Harmony and Cavalier, the Command-level guidance was not disseminated in a timely fashion to units, who were therefore forced to develop their own training. Some units have also commented in post-operation reports on the lack of standards specifically for peacekeeping training.

7.91 Peacekeeping experience is not always being passed from contingent to

contingent, or among Commands. Although Air Command followed *Training Requirements for Peacekeeping Operations* in its preparation for the mission to Haiti, a post-training report stated that training in the Rules of Engagement should have been improved and noted the training practices employed by U.S. forces. Land Force Command employs techniques very similar to those of the U.S. forces. However, Air Command seemed unaware of this.

7.92 The absence, until recently, of an effective “lessons learned” process (only now becoming fully effective) in the Land Force has meant that some problem areas were encountered repeatedly, in spite of the cumulative experience of many combat arms rotations. Some areas of repeated weakness noted by mission reports included: training in Rules of Engagement, familiarization with foreign weapons, first aid training, and negotiation training. There is often no opportunity to make up for these deficiencies once troops are in theatre. The work of the Army Lessons Learned Centre and the Canadian Forces Peacekeeping Support Centre is intended to address this problem. The Deputy Chief of the Defence Staff has undertaken a review to be completed 31 March 1996 to identify further improvements.

7.93 Individuals and contingents are sometimes deployed even though they have not been fully or consistently trained. Several UNPROFOR mission reports recommended better standards of individual training before deployment as well as remedial training in the theatre of operations. The rotation contingent to Haiti had to conduct further training in theatre to make up deficiencies.

7.94 We found that numbers and types of equipment used to train rotation contingents for peacekeeping operations

Exhibit 7.10

Departmental Comparison of Canadian and Foreign Equipment

Category	Number of Items
Superior	10
Comparable	22
Inferior	16

do not closely match numbers and types in theatre. As well, certain types of specialized equipment used in operations are not available for training in Canada. However, our examination of mission reports has not revealed this to be a critical problem.

7.95 The Canadian Forces should develop adequate standards for predeployment training for peacekeeping. They should also ensure that improvements in training techniques are quickly disseminated.

Department's response: The Deputy Chief of the Defence Staff has commissioned a review of peacekeeping training. Following the completion of the review, required improvements will be incorporated in Course Training Standards and will be used in the training provided to both individuals and units proceeding on peacekeeping duties.

Collective training has suffered

7.96 Peacekeeping operations contributed to the decline in Land Force collective training. The main training exercise for the Land Force (Rendez-Vous 95), held only once every three years, was cancelled due to peacekeeping operations. The smaller-scale exercise that was conducted instead revealed significant deficiencies in collective training for the Land Force and in readiness levels. By mid-1994, Land Force Command was experiencing what was described by the Army Training Structure Review as a "collective training crisis". Combined arms training at the battle group level and above had come to a virtual standstill since 1992, and leaders were beginning to rotate through commands without having exercised their unit or formation. The Army Training Structure Review (ATSR) concluded that this was unacceptable, since the army intended to fight as a combined arms team

and must therefore train as such. The review team thus judged the army's deployment plan for one brigade to be unrealistic. Reports of the Command Operational Readiness Effectiveness System (ORES) in 1993, 1994 and 1995 confirmed that collective training was severely limited and formation training non-existent, undermining readiness to conduct formation-level tasks. They further identified "UN deployments" as one of the causes of the decline in collective and formation-level training.

7.97 The Army Training Structure Review recommended two command post exercises and one brigade field exercise every two years. The army chain of command directed that one exercise would be held every three years, and scheduled Rendez-Vous 95. However, this exercise was cancelled due to conflicts with the preparations for Canadian Operation COBRA, which aimed at the potential withdrawal under adverse conditions of Canadian forces from the former Yugoslavia. It was replaced by Exercise VENOM STRIKE to prepare for that operation. The size and scope of that exercise were significantly different from those of Rendez-Vous 95.

7.98 We reviewed the planning and implementation of both Rendez-Vous 95 and VENOM STRIKE to determine what direct impact peacekeeping had on the exercise-level collective training. We wanted to ascertain whether the army can conduct formation-level collective training to the required standard in the face of peacekeeping commitments near the deployment goals set in the 1994 White Paper. We also wanted to observe the extent to which the army was beginning to address its training crisis.

7.99 The aim of Rendez-Vous 95 had been to validate Land Force Command force generation plans for joint and

**The most recent
brigade exercise
completed only 3 of 12
battle task standards
and ended with the
brigade 14 days away
from being ready.**

combined operations. The aim of VENOM STRIKE was to prepare for the specific mission to the Adriatic. An important shift was made in the training standards to be exercised. The collective battle task standards at the brigade group level were changed with consequent implications for the lower-level objectives.

7.100 There were several changes to the exercise plan. The total budget of the exercise was reduced from a projected \$18 million to \$6 million. Western Area participation was cancelled and Quebec and Central Area participation was drastically reduced. Participation by Air Command and other functional elements was also reduced substantially.

7.101 For the reduced brigade group remaining in VENOM STRIKE, as was planned for Rendez-Vous 95, only a limited number of battle task standards were exercised. Achieving 5 of the 12 standards was designated as an objective of VENOM STRIKE, but in the end only three were exercised and achieved. Exercising only 3 of 12 battle task standards in a three-year period means that, given command and personnel rotation, at no time in the foreseeable future would there be any fully trained formations, units or even personnel in the army.

7.102 Furthermore, the post-exercise report stated, "The most optimistic interpretation of readiness, on the last day of VENOM STRIKE, was that the land component was still 14 days away from being ready." Nevertheless, the COBRA force was declared operationally ready to deploy. Thus the contention that army deployment plans are unrealistic seems justified.

7.103 Improvement since 1994. According to Chapter 24 of our 1994 Report, Land Force Command did not

assess whether exercises met operational requirements. Since then, the Land Force's approach has clearly improved to become more systematic. Exercise VENOM STRIKE had predefined standards (the battle task standards), against which performance could be evaluated. An extensive evaluation plan and process was elaborated, drawing directly on the battle task standards to conduct the evaluation. As well, an attempt was made to capture the lessons learned from the exercise and feed them into a systematic process through the Army Lessons Learned Centre.

7.104 We observed that for the first time, handling of civil-military co-operation was given some prominence in a brigade-level exercise. The army exercised on working with non-governmental agencies in a peacekeeping environment, on refugee handling and on civil-military negotiation. Many lessons were learned.

7.105 The exercise concluded that much more remains to be done to train individual soldiers on Rules of Engagement. This was of particular concern, given the real-world operational focus of the exercise.

7.106 At the levels below brigade group, Exercise VENOM STRIKE provided some significant indicators of deterioration in the level of collective training. The post-exercise report noted that one of the two battle groups had arrived for the exercise without having completed the entry standards, in spite of the fact that the exercise allowed 72 days for assembly and preparatory training, whereas the departmental deployment operational plan allows only 29 days. The report stated: "This causes grave concern in an army that had been told for two years that Rendez-Vous 95 was the single highest priority event of 1995." The

post-exercise report also highlighted weaknesses in the tactical handling of armour, which “can be attributed perhaps to the lack of training opportunities caused by operational and other commitments during the past few years.”

7.107 We examined a number of Land Force collective training and exercise plans to determine the extent to which peacekeeping may be causing the cancellation or significant modification of planned training exercises. We selected a sample of 130 exercises planned between 1992–1993 and 1994–1995.

7.108 Operational Readiness and Effectiveness System (ORES) and other reports for that period noted that the tempo of UN operational deployments, coupled with funding constraints, “impacted heavily” on unit and formation-level training. One ORES report stated that there was a cumulative decay in combat functions not directly employed in peacekeeping, and in the ability and readiness of brigades to meet formation-level commitments.

7.109 Of the 130 exercises selected in our sample, we could find evidence of only 46 that took place. Planned exercises involving a battalion or regiment-sized unit were the ones most often cancelled, with completion rates of less than 20 percent. Peacekeeping appears to have had an impact on one of two documented command post exercises conducted, and on two of six documented formation-level exercises. The fact that only 35 percent of planned exercises took place and that peacekeeping had a significant impact on the more important ones that did take place suggests that the training crisis identified by Land Force staff extends down to the unit level.

7.110 We examined the equipment available for collective training to

determine whether operational tasks were impeding collective training on this score. Exercise documents revealed no systemic problems due to lack of equipment for training that can be traced to peacekeeping operations. Shortages of equipment for particular activities are normally made up by borrowing from other units for the training period. As there are no scales for the type and amount of equipment required to conduct collective training, there is no objective standard against which equipment available for exercises can be measured.

7.111 **The Land Force should clarify its concept of operational readiness. Land Force field training regulations and standards should be completed as a matter of priority and should address the links between readiness, resources and the training achievement of battle task standards. The Land Force should address its inability to complete collective training plans and the impact on collective training of peacekeeping commitments. Battle task standards should be exercised within a reasonable time frame.**

Department's response: The increase to the size of the field force, once fully implemented, will improve Land Force Command's ability to conduct necessary collective training while simultaneously conducting peacekeeping operations. An additional improvement to collective training as a result of the operational enhancements will be the reduction of turmoil amongst the remainder of the field force caused by the current policy of drawing on other units to augment deploying units. Land Force Command is in the process of implementing individual and collective battle task standards, field training regulations and the necessary linkage between readiness, resources and training requirements to address this deficiency. It must be appreciated that there will always be cases where

operations will affect the ability to train but every effort will be taken to minimize the impact on overall readiness.

Peacekeeping Support

Preparedness for civil-military co-operation

7.112 The Canadian Forces are improving their doctrine and training for civil-military co-operation (CIMIC).

In recent peacekeeping operations, the military role has often been to support humanitarian activities. In the former Yugoslavia, for example, the United Nations High Commissioner for Refugees (UNHCR) was the lead agency for United Nations efforts, not UNPROFOR. Recent missions have clearly demonstrated the need to establish a sound working relationship with the many other players, such as United Nations' agencies, private volunteer organizations, local civic leaders and diplomatic staff, to address effectively problems such as refugee handling. Military forces around the world have recognized that new doctrine and training are required.

7.113 Britain and the United States have been addressing this area more actively than have the Canadian Forces. They have developed doctrine, and the United States has developed a specific training exercise. The United States deployed to the United Nations mission in Haiti members of a Reserve unit that is entirely dedicated to the CIMIC role.

7.114 The Canadian Forces are now taking active steps to develop doctrine and training for CIMIC. The new Peacekeeping Manual addresses the main points of CIMIC, and officials told us that further details will be added in the coming months. As well, the draft Land Force doctrine manual clarifies the objectives and application of CIMIC and

humanitarian aid. Contingent commanders had expressed the concern to us that they did not feel supported by the Canadian or United Nations chains of command when encouraging humanitarian aid initiatives by their troops. The draft doctrine now makes it clear that this is a desirable way of attaining the overall military objective. As noted in Exercise VENOM STRIKE, the Land Force is beginning to exercise its CIMIC role and is deriving valuable lessons.

7.115 We also found that the doctrine being developed incorporates a distinctly Canadian approach to peacekeeping. Considerable emphasis is being placed on the value of recognizing where consent by opposing sides will allow the military to rely on civilian organizations. At the same time, the importance of demonstrating impartiality in all humanitarian and CIMIC activities is also being emphasized. However, during our field visits and discussions with returned contingent commanders as well as with the officers charged with CIMIC roles, we noted that they were not fully aware of the ongoing work on doctrine development.

7.116 The Canadian Forces should ensure that doctrine addressing CIMIC is finalized quickly and is implemented through appropriate training in all Commands.

Department's response: The Department concurs with the recommendation. Development of CIMIC doctrine will be pursued as a priority and the Deputy Chief of the Defence Staff directed that peacekeeping training will be modified to include training in CIMIC.

Control of inventory and equipment

7.117 Some important Canadian Forces Supply System controls have broken down. To determine whether supplies and equipment to Canadian

contingents on peacekeeping missions were provided with due regard to economy and efficiency, we reviewed a departmental database of items sent to missions between September 1991 and June 1995. The database recorded \$482 million in inventory sent, including ammunition, spare parts, repairable components and consumable items, and \$340 million in equipment (including the recorded value of vehicles), for a total of \$822 million.

7.118 We found a clear lack of inventory control on items sent to a mission. Of 300 sea containers sent to the mission in Somalia, many had to be opened to determine their contents due to lack of proper identification. A departmental “lessons learned” report on the Somalia mission observed that there was inadequate attention to inventory control for shipments. The introduction by the Department of an automatic tracking system is expected to prevent reoccurrence of similar problems.

7.119 The Canadian Forces do not have standard scales for supplies and equipment sent to peacekeeping missions. Of the \$822 million sent, \$151 million in stock items and \$146 million in equipment are recorded as still held in theatre. Departmental records show a type of downward adjustment totalling \$67 million described as “not affecting the write-off register.” They also show \$13 million of losses due to fire, theft, or disposals in theatre.

7.120 We conducted more detailed tests on these adjustments totalling \$80 million. We selected a sample that included all losses or accounting adjustments greater than \$100,000, and an additional 30 items at random. We requested the documentation required by the departmental Supply Manual. To the end of our audit, the Department could not

find a significant proportion of the documentation, and the losses and adjustments remain largely unexplained. For example:

- Of 31 vehicles recorded as issued to the mission in Haiti, 29 were recorded as received. Departmental staff recorded in the system a loss of two vehicles, without providing a documented explanation as required. Officials told us they believe that the issuing section must have made a clerical error and that there was no real loss.
- Another item in Haiti was adjusted by more than \$11 million. The documentation provided to us did not identify the issuing supply section. The adjustment was not supported by any explanation and, contrary to established procedures, was unsigned. Although the quantity of the item involved makes it unlikely that the number stated was actually ever on hand, and we believe this was a clerical error and no real loss resulted, the failure of the control system is troubling.

7.121 We conclude that the Department has failed to apply the required control over items flowing through the departmental supply system to peacekeeping missions. Adjustments assumed to correct clerical errors could in fact represent losses. This places departmental assets at considerable risk.

7.122 Control procedures to ensure that inventory supplied to missions is adequately accounted for should be communicated well throughout the Department and followed.

Department’s response: The Department agrees with the recommendation. Improvements to the Canadian Forces Supply System and the establishment of a central support unit in Montreal for deployed operations will improve inventory accounting. The introduction of new courses for support officers this past year has enhanced their ability to control

inventory and finances. As part of the more comprehensive individual and unit training being developed, the importance of, and procedures for, inventory control will be taught to all personnel prior to their deployment on missions. In the meantime, incidents noted in this chapter are being investigated further by the Department.



About the Audit

Scope

Our audit focussed on National Defence's capacity to generate forces for peacekeeping, as well as on whether peacekeeping operations are impairing overall training and readiness; whether the troops sent to peacekeeping have adequate equipment and are properly taken care of before, during and after deployment; and whether peacekeeping operations are costing National Defence more than is necessary. We based our audit primarily on the study of six peacekeeping missions: Angola, Haiti, Rwanda, Somalia and the former Yugoslavia (UNPROFOR I and UNPROFOR II).

Although we observed the successes of Canada's peacekeeping operations in the field, we did not attempt to evaluate field operations where Canada's forces were under the operational control of the United Nations or other joint force.

In the last five years, the involvement of the Canadian Forces in peacekeeping or "peace support operations" has greatly expanded. The conflicts in which the Canadian Forces have been involved have often been complex and of undetermined duration. Our use of the term "peacekeeping operations" in this chapter includes most "operations other than war". Such operations are characterized by impartiality, the use of force only in self-defence and some level of consent of the belligerents to the presence of the military force. Peacekeeping operations are difficult and often dangerous because they involve the deployment of Canadian Forces personnel into war zones or areas where a cease fire agreement has only recently been signed and the parties are still hostile to each other. Although the Canadian Forces participated in many peacekeeping missions under United Nations auspices, other missions were part of a multinational combined force.

Objectives

The overall objective of our audit was to assess the quality of management practices rather than to assess military judgments or achievements. Our specific objectives were:

- to assess the extent of military advice provided to ministers and parliamentarians about Canada's participation in peacekeeping operations;
- to express an opinion on whether National Defence can meet government commitments for peacekeeping without impairing its ability to meet other commitments;
- to assess whether National Defence's participation in peacekeeping respects the Canadian Forces' stated values in the treatment of its members and its own personnel policies;
- to assess whether peacekeeping operations are carried out with due regard to economy and efficiency; and
- to describe the nature and extent of the Canadian military contribution to peacekeeping.

Criteria

In assessing the Department, we used goals and objectives established by the government in the 1994 Defence White Paper; NATO standards; and military goals and standards established by the Department itself. Detailed criteria are discussed in each section along with the audit findings.

Audit Team

Francesa Adibe
Robert Anderson
Pierre Hamel
Paul Morse
Amy Mullins
Maria Pallante
Romeo Pasqualitto
Odette Prigent

For information, please contact Peter Kasurak, the responsible auditor.

Report of the Auditor General of Canada to the House of Commons – 1996

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Report of the
Auditor General
of Canada
to the House of Commons

Chapter 8
Canadian Security Intelligence Service –
National Headquarters Building Project

May 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 8
Canadian Security Intelligence Service –
National Headquarters Building Project



May 1996

This May 1996 Report comprises 12 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 8

**Canadian Security Intelligence
Service**

National Headquarters Building Project

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Assistant Auditor General: David Rattray
Responsible Auditor: Reno Cyr

Canadian Security Intelligence Service

National Headquarters Building Project

Main Points

- 8.1** Since its creation in 1984, the Canadian Security Intelligence Service (CSIS) had needed a headquarters facility separate from its predecessor, the former Royal Canadian Mounted Police Security Service.
- 8.2** The completion of the new national headquarters building in 1995 has allowed CSIS to consolidate its headquarters and Ottawa Regional Office activities from ten separate facilities into one facility.
- 8.3** In our opinion, this project was well managed overall, as the national headquarters project was completed on time and within budget, and meets the functional needs of its users.
- 8.4** There are several success factors or lessons learned in this project that would benefit similar construction projects; one of those factors is the key role played by CSIS as the building's user.
- 8.5** We believe that the project team took appropriate steps to ensure that the completed facility provides a secure environment for CSIS employees and their activities.
- 8.6** The fact that the constructed gross area exceeded the original planned gross area by over 13,000 square metres, without exceeding the approved budget, raises concerns about how project budgets are calculated and about the effectiveness of Treasury Board control over its project approvals.
- 8.7** The redesign of the sixth floor, which was done despite the concerns of the project team and at an additional cost of approximately \$1.4 million, did not, in our opinion, significantly improve the functionality of the building.
- 8.8** We also noted contract prepayments made in advance of work, contrary to the *Financial Administration Act*, as well as inadequate wording in the contract documents for the architect, resulting in reduced accountability and increased costs.
- 8.9** We noted examples where, although no authorities or budgets were exceeded, additional funds could have been saved on this project.

Introduction

Need for a New Facility

8.10 The Canadian Security Intelligence Service (CSIS) was created on 16 July 1984, replacing the Royal Canadian Mounted Police (RCMP) Security Service. As part of the transition to a civilian agency, physical separation from the RCMP was considered essential. The accommodation problem was examined in a 1987 Report to the Solicitor General by the Independent Advisory Team on the Canadian Security Intelligence Service, entitled “People And Process In Transition”, and also known as the Osbaldeston Report.

8.11 The Osbaldeston Report recommended, “An immediate solution to the CSIS accommodation problem must be found, bringing all headquarters functions together in a building that can be adapted to meet the needs of CSIS, both human and technological.”

8.12 In 1987, CSIS headquarters was occupying eight separate facilities at six locations scattered throughout the National Capital Region. In addition, its Ottawa Regional Office was located in two separate facilities.

8.13 Compounding the accommodation problem was the need for expanded computer facilities. The CSIS computer centre had been co-located with that of the RCMP. The CSIS electronic data processing requirements were growing and more space was needed, which was not available in that location. The RCMP also wanted to expand its computer operations and needed the space that CSIS was occupying.

8.14 The Treasury Board’s approval of the project was based on the understanding that the site and building

would be designed to provide sufficient flexibility to accommodate growth for the foreseeable future.

8.15 Cabinet approved the construction of a new headquarters complex for CSIS in September 1988. (See Exhibit 8.1 for the chronology of key project events.)

8.16 CSIS plans in 1989 called for building the national headquarters complex in two phases. Phase I comprised the computing centre and utilities building, targeted for completion in August 1991. Phase II comprised the balance of the complex, to be completed in July 1994.

8.17 In December 1989, the government-imposed construction freeze delayed the start of Phase II. However, as Phase I was already started and considered necessary to maintain essential services, the freeze did not affect it. Subsequent approval was given to start Phase II foundations in November 1991. As a result of the early start of Phase II (five months before the construction freeze expired), the Treasury Board pulled back \$1.5 million of inflation allowance.

8.18 During construction of the national headquarters facility, CSIS was subject to the same budget cutbacks experienced by all government departments. The cutbacks resulted in a significant reduction in CSIS headquarters staffing levels, creating unforeseen surplus office space in the new facility. CSIS responded by relocating its Ottawa Regional Office operations into the facility, and adjusting the project scope for special regional needs.

8.19 The building was completed in February 1995, with a gross area of 64,293 square metres and a total project cost of approximately \$153.5 million.

As part of the transition to a civilian agency, physical separation from the RCMP was considered essential.

National Headquarters Project Objectives

8.20 CSIS identified key objectives for its headquarters facility project (Exhibit 8.2).

Need for Security and Functionality

8.21 CSIS activities revolve around information that, in accordance with the *Canadian Security Intelligence Service Act* and the Government Security Policy, is accessible only on a “need to know” basis. As a result, office areas must be compartmentalized to a greater extent than is found in typical office buildings. This results in a slightly larger than normal area of office space per occupant.

However, the individual offices adhere to the Treasury Board administrative guidelines for office accommodation.

8.22 CSIS required that the concepts used in the design of the complex reflect the need for modularity, flexibility and expandability. Due to the restrictions imposed on the exterior of the building for such essential items as windows, CSIS stated that the complex could incorporate one or more internal courts or atria.

8.23 A requirement of the design was to build flexibility into all space to accommodate organizational changes. An important element in the flexibility requirement was the need to provide for secure data communication services at every work station in the office areas.

Exhibit 8.1

Chronology of the Key Events of the National Headquarters Project

- | | |
|-------------|--|
| 1988 | In September, Cabinet approved a recommendation for a new headquarters complex for CSIS. |
| 1989 | <p>In April, the Treasury Board gave preliminary project approval for \$142.4 million (current year dollars) to construct the national headquarters building. It was designated as a major Crown project, with the additional monitoring and reporting requirements that entails.</p> <p>In December, the government imposed a construction freeze on all major construction projects (Phase I was already under way).</p> |
| 1990 | <p>In March, the Treasury Board increased the project funding under preliminary project approval to \$152.5 million to cover additional costs related to the construction freeze.</p> <p>The Treasury Board also gave effective project approval to construct Phase I at an estimated cost of \$43.65 million, with the provision that any unused balance could be carried forward to Phase II.</p> |
| 1991 | <p>In August, the Treasury Board gave effective project approval for Phase II, with a total estimated cost of \$113.3 million.</p> <p>Phase I was completed, at a cost of \$37.7 million, and the balance of funding of \$5.9 million was carried forward to Phase II. The project scope for Phase II was increased by adding a fifth floor to the south tower to provide flexibility in the form of unfinished floor area for future expansion.</p> |
| 1993 | In December, the Treasury Board approved a revised effective project approval for Phase II, which included an addition to accommodate the Ottawa Regional Office, at an additional cost of \$2.5 million. |
| 1995 | In February, CSIS took possession of the building. In November, it completed the relocation of all its employees. |

8.24 Although CSIS stated that the building should be of a quality similar to that of any national headquarters, security and functionality were its prime objectives for this project. Also specifically mentioned was the requirement to deliver the project on time and within scope and budget.

Observations and Recommendations

8.25 The objective of this audit was to determine whether the constructed national headquarters facility met the CSIS-stated objectives and the Treasury Board approvals, and whether the project was implemented with due regard to economy and efficiency. We examined all the main stages of this major Crown project. Further details on audit objectives, criteria, scope and approach can be found at the end of the chapter in the section "About the Audit".

Schedule and Costs

8.26 The project was completed within the approved time frame, in February 1995. The original completion target of July 1994, at preliminary project approval, had been revised after the government-imposed construction freeze was expected to delay completion by

17 months. Once work on Phase II had begun, however, the schedule was again brought forward, with a new completion target of September 1995.

Unit cost was appropriate for a special-purpose building

8.27 Based on unaudited final costs, it is estimated that the total project was completed for approximately \$500,000 less than the revised budget of \$153.5 million. Final costs cannot be determined until all invoices and changes have been verified and settled.

8.28 The unit costs for this building are higher than those for typical office buildings, because of the need for specialized facilities such as wet and dry labs, workshops, and special security requirements and considerations that created extra procedures and costs during the construction phase. In our opinion, however, the unit costs for this project were appropriate. (See Exhibit 8.3 for space allocation.)

Security

The building's security systems are adequate, but "island" site must be maintained

8.29 A primary requirement of this facility is that it be a secure environment. We reviewed the threat and risk assessments, the security recommenda-

It is estimated that the total project was completed for approximately \$500,000 less than the revised budget of \$153.5 million.

The project objectives were to create:

- a secure, technologically advanced environment in a structure that will be able to respond to evolving accommodation needs both easily and economically;
- a radiation-shielded computing centre that will protect the vital database of CSIS and provide for future expansion in this area;
- space for future employee growth until 2004, based on an assumed one percent per year growth in national headquarters personnel (subsequently deleted); and
- a cafeteria, day-care centre (subsequently deleted), training rooms, workshops, storage and administrative offices.

Exhibit 8.2

National Headquarters Project Objectives

The security design is integral to the building and has been part of the overall design from the beginning.

tions and the security design. We also reviewed the security precautions and measures taken during construction, and interviewed experts in the security field from other government departments. We concluded that the project team took appropriate steps to ensure that the completed facility provides a secure environment for CSIS employees and their activities, without being onerous.

8.30 The security design is integral to the building and has been part of the overall design from the beginning. This approach has minimized the cost of installing additional special security measures. The security system can operate at different levels. Should a situation develop where CSIS would require heightened security, overall or in any part of the building, the system can accommodate such changes. It has also been designed to incorporate new technology easily.

8.31 In our opinion, the nature of the isolated site on which this facility is situated is a key security factor in the design. The site uses physical space surrounding the building as a protective buffer. It is therefore imperative that CSIS ensure the integrity of this “island” site. Should adjacent lands be developed, some of the design precepts would be rendered invalid.

Constructed Space

Program space constructed as authorized

8.32 Our audit examined whether the amount of space constructed is consistent with that authorized by the Treasury Board. We concluded that the program space is consistent with that authorized, but that the gross area significantly exceeds that proposed by CSIS in the preliminary project approval.

8.33 A project is initially defined in terms of its scope, including program space, schedule, and budget. Program space is a value based on the user’s statement of requirements, and may be considered the minimum amount of space required for an organization to meet its operational needs. Once approved by the Treasury Board, program space becomes a control point against which performance is measured. For the completed national headquarters building, the program space is consistent with the 38,410 square metres approved by the Treasury Board.

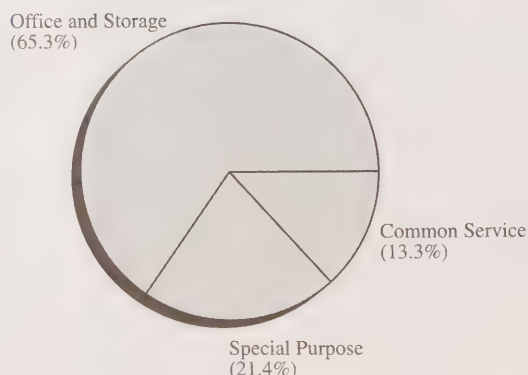
Constructed gross area significantly exceeds plan, but within the original budget

8.34 In the preliminary project approval, the building’s planned gross area of 50,836 square metres was calculated by applying a design “net to gross” factor to the program space. The project budget was then determined by multiplying the calculated gross area by the estimated cost per square metre, using industry standards. However, the gross area is not included in the project scope and it is not formally approved or monitored by Treasury Board.

8.35 We noted that the constructed gross area exceeds the originally estimated requirement by over 13,000 square metres. As early as

Exhibit 8.3

Allocation of National Headquarters Space



Source: CSIS

February 1992, the progress reports to the Treasury Board Secretariat were showing a constructed gross area of 64,300 square metres, and we were advised that the final constructed gross area is 64,293 square metres. Part of the increase in the gross area can be accounted for by the unfinished fifth floor (for future expansion) and the Ottawa Region space, both of which were approved after the preliminary project approval. In addition, the original gross area was estimated before the design had been started. However, despite being made aware of this 26 percent increase in gross area, we saw no indication that Treasury Board officials communicated concern to the project leader.

8.36 It is also important to note that the increase of over 13,000 square metres in gross area was accomplished with no increase in the project budget. This major change in the gross area, with no corresponding change in the budget, raises concerns about how project budgets are calculated, since the amount of area built relates directly to the total cost. When such changes are proposed, the assumptions used in estimating the budget should be verified.

A building's gross area needs to be monitored by the Treasury Board

8.37 Using program space, budgets and schedules as the primary means of controlling projects does not guarantee the best value for the taxpayer. Since the gross area is fundamental to the cost of a building, it should also be included as part of the approved project scope. Any proposed changes to the gross area would have to be explained, thereby giving the Treasury Board a more complete understanding of what is happening in the project.

8.38 The Treasury Board Secretariat should review the assumptions used by departments in developing project budgets and the current mechanisms for controlling and monitoring the scope in proposed construction projects.

User Requirements

National headquarters meets users' requirements now and provides for the future

8.39 Based on interviews with CSIS employees, we are satisfied that the national headquarters facility meets the requirements of its users in day-to-day operations. The building provides a functional workspace and a productive working environment, reflecting the great importance that CSIS placed on functional requirements.

8.40 During February 1989, the initial user program space requirements were subjected to a rigorous analysis by the CSIS project team, using a challenge-review process. This resulted in significantly reduced program space. CSIS stated to the Treasury Board that, as a result of this analysis, the user program space incorporates only those needs that are the minimum acceptable for operational purposes while still adhering to the project objectives.

8.41 The analysis also determined that the reception/dining room, located next to the corporate boardroom, could be eliminated. Despite this recommendation, the reception/dining room space was constructed. Although we did not see a justification of the need for this space as part of the analysis, CSIS has stated that it needed the reception/dining room for entertaining visitors privately.

8.42 The building's design incorporates flexibility for future change. For example, the infrastructure for data

Since the gross area is fundamental to the cost of a building, it is important that it be included as part of the approved project scope.

We determined that the contracts and change orders were administered in compliance with the government contracting regulations.

and electrical services in each workspace has been designed to allow for future growth. Furthermore, the building's systems have been constructed to be adaptable in a changing technological environment.

8.43 Our audit also assessed whether the facility exceeds user requirements. We concluded that in most cases it does not. We noted that the project team reviewed all requirements for reasonableness and functionality. The design was frozen and changes to user requirements were not allowed after a specified time (an exception is the redesign of the executive suite, which is discussed under "Contracting Process").

8.44 Since the start of construction, CSIS has been subject to government budget cuts and staff reductions. Despite the subsequent relocation of the Ottawa Regional Office activities into the national headquarters facility to utilize some of the excess space created by staff reductions, there remains some underutilized office space. CSIS has advised other agencies that it might have space available. We encourage this action.

8.45 CSIS should conduct a space utilization study to determine how much surplus space is available, and continue to examine alternatives for its efficient use without compromising its security requirements.

Contracting Process

Government contracting regulations and policies were respected

8.46 Public Works and Government Services Canada (Public Works) acted as the contracting authority for the project. We examined a sample of the construction contracts, construction change orders, consultant contracts and fees paid to the Department. Changes are inevitable in any construction project, and a provision for them is always included in a contingency allowance.

8.47 We determined that the contracts and change orders were administered in compliance with the government contracting regulations, and with policies and procedures set out for the project. The changes were justified, based on functional requirements, and generally represented due regard to economy.

*The National
Headquarters
Building of CSIS*



Redesign of the sixth floor for \$1.4 million to accommodate changes to the executive offices adds limited functional value

8.48 We noted one change, however, that did not represent good value for money. The change was the redesign of the sixth floor, which contained the executive offices, and it took place after other design changes had been frozen. Although the project team had concerns about the cost and the effect on the schedule, it was decided in January 1993 to redesign the sixth floor completely as a result of changes to the location and layout of the executive offices, to make other functional changes and to add doors to a rooftop terrace. In our opinion, this work does not appreciably increase the functionality of the space. We estimate that the work cost approximately \$1.4 million to complete. However, it is important to note that no completed work had to be undone as a result of the changes since they were approved before work commenced. This was the only such case that we noted.

CSIS comments: In reference to item 8.48, CSIS remains convinced that the revisions to the sixth floor represent good value. The executive offices are much more accessible in the current arrangement and additional functions were introduced.

Consultant fees nearly doubled

8.49 Consultant fees were estimated in the preliminary project approval to be approximately \$8.75 million. Final consultant fees were \$15.4 million. Public Works explained to the Treasury Board that the difference was due to the increased use of specialists by CSIS, the delay caused by the construction freeze, higher than anticipated expenses (for example, travel, printing, and translation),

additional site supervision, and design changes and studies requested by CSIS.

8.50 The consultant's contract was between Public Works and the architectural firm. Public Works selected the architects using its established evaluation method. Because of the selection method (carried out by a committee) and the lack of documents on file, we are unable to comment on the suitability or fairness of the process. However, we did note the project team's high degree of satisfaction with the architects' work. Proposed base fees were only a minor factor in the selection process and were not negotiated. Public Works informed us that professional fees are now negotiated.

8.51 The preliminary project approval submission estimated that fees and expenses paid to Public Works would be approximately \$3.18 million; instead, they were \$8.07 million. The increase was explained as being due to the inclusion of seconded staff, the delay caused by the construction freeze, and greater than anticipated project complexity.

8.52 Despite our extensive discussions with officials, it remains unclear to us why the fees were so much higher than original estimates, particularly when other costs were lower than expected. In our opinion, insufficient control was exercised in the management of fees. Had the construction contracts come in at the anticipated amounts, the project could not have incurred these additional expenses without exceeding its budget.

Prepayment of fees contrary to the Financial Administration Act

8.53 We also noted that, in the years 1989–92, prepayment of Public Works fees at year end was made to manage cash better, and to avoid lapsing of appropriations or reprofiling of reference

Insufficient control was exercised in the management of fees.

levels of the annual budget (seeking approval of the Treasury Board to move funds into other fiscal years). This prepayment in advance of work was contrary to section 34 of the *Financial Administration Act*.

Contract form used was inadequate for the purpose

8.54 The contract used was the Public Works standard contract with generic terms and conditions (project-specific details are listed in appendices). Given the size and complexity of this project, we believe it would have been more appropriate to use a contract specifically written for the national headquarters project. For example, under the terms governing site supervision, the contract states that the architect shall “make visits to the site to determine, on an adequate sampling basis, whether the work is in general conformity with the construction documents.”

8.55 Site supervision is classified as an additional service and is extra to the basic fee. The contract wording is vague and provides no basis for estimating actual site supervision requirements, especially since “adequate sampling basis” and “general conformity” are not defined. As a result, inadequate provision was made for this function and site supervision costs had to be increased from \$1.35 million to \$2.32 million.

8.56 We also noted that the Request for Proposal, sent to the architects for the selection process and containing the terms and conditions of engagement, is not referenced in the contract and does not form part of the contract. As an example, clauses for travel expenses shown in the Request for Proposal had limitations and restrictions that were not reflected in the signed contract. Furthermore, we noted that relocation expenses for the consultant

were paid. Such payment was not authorized in the contract.

8.57 **Public Works and Government Services Canada should ensure that consultant contracts are tailored to the specific project.**

8.58 **Public Works and Government Services Canada should review all fee payments to determine that they were authorized and appropriate.**

Options Analysis and Site Selection

8.59 Public Works carried out an analysis of potential options for meeting the CSIS accommodation requirement. The analysis determined that it would cost more to renovate and add to the Tupper Building than to build a new facility, and it was therefore decided to request approval for a built-for-purpose facility. We did not see any evidence that other existing buildings, either in the Public Works inventory or the private sector, were considered.

Requirements under the government's land transfer policy are unclear

8.60 Once the decision was made to build, six sites were considered. Based on the site selection criteria, the Gloucester site was chosen as the most appropriate.

8.61 The site was acquired in two stages. The original 12.15 hectare (30 acre) site was given to CSIS by another government agency. In return, CSIS paid \$300,000 to cover the costs of relocating a microwave tower. Original estimates for this work were \$150,000. We were not able to determine if the increase in costs was justified, particularly since the new tower has yet to be constructed.

8.62 Land adjacent to and surrounding the original site was subsequently declared surplus by the other government agency

and acquired by CSIS. CSIS was interested in the land to add to and protect the security perimeter around the national headquarters building. Although the Treasury Board submission stated that there would be no financial consideration involved in the land transfer, we noted that CSIS was required to pay an additional \$250,000 toward the removal of the tower.

Debate over land transfer results in delays

8.63 We also noted that it took more than four years to effect the land transfer. This delay, and its associated costs, resulted from a debate over whether CSIS should purchase the land from the government. As part of this debate, Public Works had the land evaluated by a private real estate appraiser.

8.64 CSIS argued that, at the time of the transfer of the original parcel of land, the second parcel was under the control of the government. However, once the second parcel was declared surplus, it could be sold. This raised the possibility of construction adjacent to the national headquarters and thus a compromise of the security afforded by the island site. The Treasury Board agreed with CSIS and the transfer of the second land parcel took place. It is not clear why the transfer took so long or what benefit the taxpayer derived from this process.

8.65 The Treasury Board Secretariat should review the transactions relating to the acquisition of the land required for the CSIS headquarters project to determine if they are in compliance with the granted approvals and if there are means to streamline such transactions.

Project Review Process

Reviews of design should be better co-ordinated

8.66 As part of the design process, different groups carried out reviews of the building's design. Preliminary reviews were done by the project team, and CSIS senior management then reviewed the final drawings. The exterior design and landscaping were approved by the National Capital Commission, following review by its Advisory Committee on Design in accordance with the provisions of the *National Capital Act*. The Public Works Design Review Committee reviewed major aspects of the design, which also included the exterior of the building.

8.67 Public Works defines its role as conducting a peer review of the design. This review is carried out as part of its responsibility as contracting authority with the design consultant.

8.68 The National Capital Commission's role, as defined by its Act, requires the Commission to approve all federal construction in the National Capital region, in terms of the exterior and landscaping elements. In this project, the Commission feels strongly that the approval process positively influenced the design to ensure that it made an appropriate contribution to the Capital. Furthermore, the Commission informs us that it has learned from the experience with the CSIS building and has increased co-ordination and co-operation on many subsequent projects. The Commission also states that since 1990 it has further streamlined its design review process.

8.69 We noted the frustrations experienced by the project team with this review process. There was a general feeling that the process was onerous, and

It took more than four years to effect the land transfer.

A value management study was undertaken for each of the two phases of the building project.

We have entered a new era in which there is a greater public expectation that governments will exercise every opportunity to achieve cost savings in delivering their programs.

could potentially have resulted in extensive delays with marginal benefits to the project.

8.70 Based on our examination, we noted a significant variance of opinion on the efficiency of the review process. As a result, we will examine the review process in our future audits of major Crown projects.

Life-cycle costing analysis was not done, but a value engineering study identified savings

8.71 Another kind of design review that was performed is usually called value engineering or value management. A value management study was undertaken for each of the two phases of the building project. This is the first such study in a major Crown project that we have noted. The total cost for both studies was approximately \$150,000. The suggested improvements were estimated to provide significant savings over the life of the building. For example, main components of the ventilation system were decentralized to each floor, allowing for the installation of a more efficient and flexible air handling system with increased back-up capability.

8.72 Although value management studies are a form of life-cycle costing analysis, full life-cycle costing analyses, as stipulated in the Treasury Board policy for major Crown projects, were not done. Furthermore, in the post-mortem of the value management studies, it was noted that the exercise would have been more effective if life-cycle cost data had been available. The project team stated that, in its opinion, life-cycle costing is not as useful as value management.

8.73 In our experience, life-cycle costing (with the exception of the Department of National Defence) is not

done in major capital construction projects. We believe that some form of analysis of the design and major systems should be carried out to ensure best value.

8.74 While we support the concept of project and design review, the Treasury Board Secretariat should examine the use of value management studies versus life-cycle costing studies.

Opportunities for Cost Savings

Greater emphasis on cost-saving opportunities is needed

8.75 The ultimate goal of existing government policies for project management is that budgets not be exceeded. We believe, however, that the realities of the fiscal restraint climate under which we now operate will necessitate a change of thinking on the part of those approving and managing large government expenditures. We have entered a new era in which there is a greater public expectation that governments will exercise every opportunity to achieve cost savings in delivering their programs.

8.76 For this project, CSIS was operating under the approval of a total budget and felt that what it did was within the authority granted. We concur; however, we believe this situation exemplifies the need to clarify what the approval limits really mean. Our audit identified examples of opportunities where, although no authorities or budgets were exceeded, additional funds could have been saved on this project (see paragraph 8.27).

Approved inflation allowance provides a budget cushion

8.77 The revised preliminary project approval in 1991 provided project funding of \$129 million in constant dollars and

\$152 million in current (inflated) dollars. In other words, there was a provision of \$23 million for inflation. The provision of an inflation allowance is normal practice for construction projects that take several years to complete. The project budget is first calculated in terms of actual purchasing power of the dollar in the year the budget is approved. Construction costs are estimated based on prevailing prices for materials, labour and consulting fees to arrive at the constant dollar budget. A forecast of the expected rate of inflation over the period of construction is then applied to the constant dollar budget year by year to yield the current dollar budget.

8.78 The actual rate of inflation over the life of the project was much lower than that assumed in preparing the initial project budget. Consequently, the \$23 million inflation allowance provided for in the budget was higher than needed. Based on the actual rate of inflation for the period 1989 to 1995, we estimate that the inflation allowance was approximately \$10 million to \$12 million higher than needed.

8.79 The Treasury Board effectively signalled the notion that the inflation allowance is an “as required” cost element in the project budget, when it recovered \$1.5 million from the budget in 1991 because the project was able to begin sooner than anticipated.

8.80 The inflation allowance provided a “cushion” in the budget, and this cushion, in addition to the standard contingency allowances of approximately 10 percent, gave managers an extra degree of flexibility. However, certain elements of the project, particularly consultant fees, were significantly higher than budgeted, and consumed most of the unspent inflation allowance. In some cases, this financial flexibility was used to enhance

the functionality of the building, such as the addition of the unfinished fifth floor south and the addition of a conference centre.

8.81 We are not implying that there was no budgetary discipline. For the most part, the project budget was strictly controlled. Attempts to adhere to functional requirements were successful and original budget estimates for the different elements were respected. Additions or changes made were generally based on sound judgment and resulted in good value.

8.82 There are always pressures to enhance the quality of systems and finishes on projects. We noted that, in many cases, design decisions were based on their relative value and how they would affect the budget. The rigorous analysis of all space requirements is a good example. However, the reduced pressure on the budget also led to a “build-to-budget” philosophy. For example, the architects favoured granite panels for the building’s exterior cladding. The project team, concerned about the budget, also examined the costs for a brick and precast concrete cladding. When it was determined that granite could be used within the budget, it was decided to proceed without additional study of less expensive alternatives. Without commenting on the aesthetics of either choice, this was a potential opportunity for a cost saving to the taxpayer that was not fully explored.

8.83 **The Treasury Board Secretariat should clarify what the project approval means, stress lowest cost and consider incentives to encourage underspending budgets. Departments should be encouraged to identify and implement cost-saving opportunities in their approved projects.**

Conclusions

A well-managed project overall with useful lessons learned

We consider this project to have been well managed.

8.84 Overall, we consider this project to have been well managed, notwithstanding certain negative findings, especially when compared with other projects we have examined. For example, we noted that many of the problems we have cited in our previous reports did not occur in this project, and there are some useful lessons for other government projects to learn from and consider applying where appropriate. Our interviews with the key project staff identified some factors that contributed to the project's success.

- **The project team.** The project team was the key element to the success of this project. The team, which was made up of the architects and members of CSIS and Public Works, had a good composition of skills and experience and was dedicated to the project.

- **The project leader.** The project leader was responsible for only the national headquarters project, had the proper combination of skills and experience and had support from senior management.

- **Wide consultation.** The final users of the space were involved in the planning and design phases, participated in developing the specifications, signed off on the design, and participated in the inspection of the construction in technical areas. The building operating team was also brought in at an early stage and was consulted on design issues. This extensive consultation probably accounts for the high level of satisfaction with the final product.

- **Adequate planning time.** There was adequate, but not excessive, planning time. According to the project manager, the initial planning time paid dividends during the construction.

- **Freezing the design.** In most cases, changes to the design were cut off by the project team at an early stage. There is often a temptation to continue to refine the plans toward achieving perfection.

The building is located on an isolated site.



Organizational and other changes in the future will be accommodated by the flexibility designed into the building.

- **Thorough design review.** An aspect of the planning and design process that was unique to this project was the role that security considerations played. When a space requirement was specified, the security requirements for that space were reviewed. People were forced to think about how the space would be used and how it related to other functions. We believe that this extra level of review resulted in improved functionality and efficiency of the building.

- **Complete tender documents.** Tenders were not called until the tender documents were complete. An incomplete set of documents at the time of tendering usually leads to problems, resulting in extra charges or claims.

- **Two-stage tendering process.** The need for high security on this project had a positive effect on the tendering process. CSIS invoked Section 6.c of the government contracting regulations to control who had access to the tender documents. Although the need for this action was obvious, it had the added benefit of allowing a two-stage tendering process. Expressions of interest were called for, interested companies were screened, and five companies were selected by lottery to bid.

- **Early error detection.** Details are important to an intelligence organization and can mean the difference between success or failure of an operation. This penchant for details in CSIS was successfully applied to the review of the specifications, drawings and the final product. Mistakes were often caught before they became expensive.

- **Quality assurance.** At an early stage, a commissioning manager, reporting to the project leader, was made part of the project team. The manager was responsible for all aspects of

commissioning, quality control and reporting. Quality assurance requirements were made part of the contract specifications. As a result, the project leader had verification that work was being completed in compliance with the technical specifications.

- **Schedule.** The building was completed in advance of schedule. Two of the contributing factors were that:

- approval was obtained to start construction of Phase II foundations five months before the construction freeze expired. This allowed underground work to proceed while ground conditions were favourable; and
- when it became apparent that the completion of drawings for the main construction contract would be delayed, extra work was added to the foundation contract in the form of a change order. Failure to act could have resulted in a work stoppage on site and a loss of momentum.

User's leadership role a key success factor

8.85 We believe that the key to the success of this project was that the user (CSIS) acknowledged accountability and acted appropriately. From the start, CSIS made it clear to all parties involved that this project was its responsibility and would meet CSIS needs. CSIS controlled the project budget and authorized all spending. In addition to establishing a dedicated and qualified project team, CSIS engaged experts to supplement its own expertise. It also reviewed and applied lessons learned from the management of other projects and from our past audit reports.

The Treasury Board Secretariat's comments: The Treasury Board Secretariat concurs with the conclusion in this chapter that this was a well-managed

We believe that the key to the success of this project was that the user (CSIS) acknowledged accountability and acted appropriately.

project overall, with a strong project leader and team, in which leadership by the building user was a key success factor. We concur with the recommendation for greater emphasis on cost savings within the overall approved budget. This being

said, we note that the approach followed in this project contributed significantly to the strict control of the project budget and, ultimately, to the success of the project itself.



About the Audit

Objectives

The objectives of the audit were to determine whether the constructed national headquarters facility would meet the CSIS-stated objectives and the Treasury Board approvals, and whether the project was implemented with due regard to economy and efficiency.

Criteria

Our audit criteria were derived from our guide for auditing capital asset projects, as well as the appropriate Treasury Board policies and guidelines.

Scope

The audit examined all the major stages of this major Crown project. Specifically, we reviewed the needs definition, the options analysis, the project definition, the design and review process, the contracting process, change orders, project management, environmental assessment, commissioning and post-project evaluation.

Our audit commenced in November 1995 and was completed in March 1996. Given the size and complexity of this project and the limited time available, we did not audit detailed financial records. The post-project evaluation, a requirement for a major Crown project, was in progress but not completed by CSIS at the time of the audit.

The audit did not address the CSIS mandate. However, in acquiring an understanding of the requirements for the facility, we confirmed that they were based on the existing mandate and were appropriate.

Approach

Audit evidence was collected through extensive interviews with the building project staff, and with CSIS staff as users of the building. We reviewed planning documents, submissions to the Treasury Board, project briefs, minutes of the Senior Project Advisory Committee meetings and project management meetings, correspondence, contract documents and annual reports. We inspected the building, from the roof to the basement, including the office space, special purpose space and building services space.

We received a high level of co-operation from the project management team, which included people from CSIS and Public Works and the architects. Members of the general CSIS staff were also very helpful. The level of co-operation is particularly noteworthy given the security considerations relative to CSIS operations and the facility itself.

Audit Team

Edward Wood
Darlene Mulligan
Joe Reperto

For information, please contact Reno Cyr, the responsible auditor.

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Report of the Auditor General of Canada to the House of Commons

Chapter 9
Agriculture and Agrifood Canada – Animal and
Plant Health: Inspection and Regulations

May 1996

**Report of the
Auditor General
of Canada
to the House of Commons**

Chapter 9
**Agriculture and Agrifood Canada – Animal and
Plant Health: Inspection and Regulations**



May 1996

This May 1996 Report comprises 12 chapters and a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 9

Agriculture and Agri-Food Canada

Animal and Plant Health:
Inspection and Regulation

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Assistant Auditor General: Don Young
Responsible Auditor: Douglas Timmins

Agriculture and Agri-Food Canada

Animal and Plant Health: Inspection and Regulation

Main Points

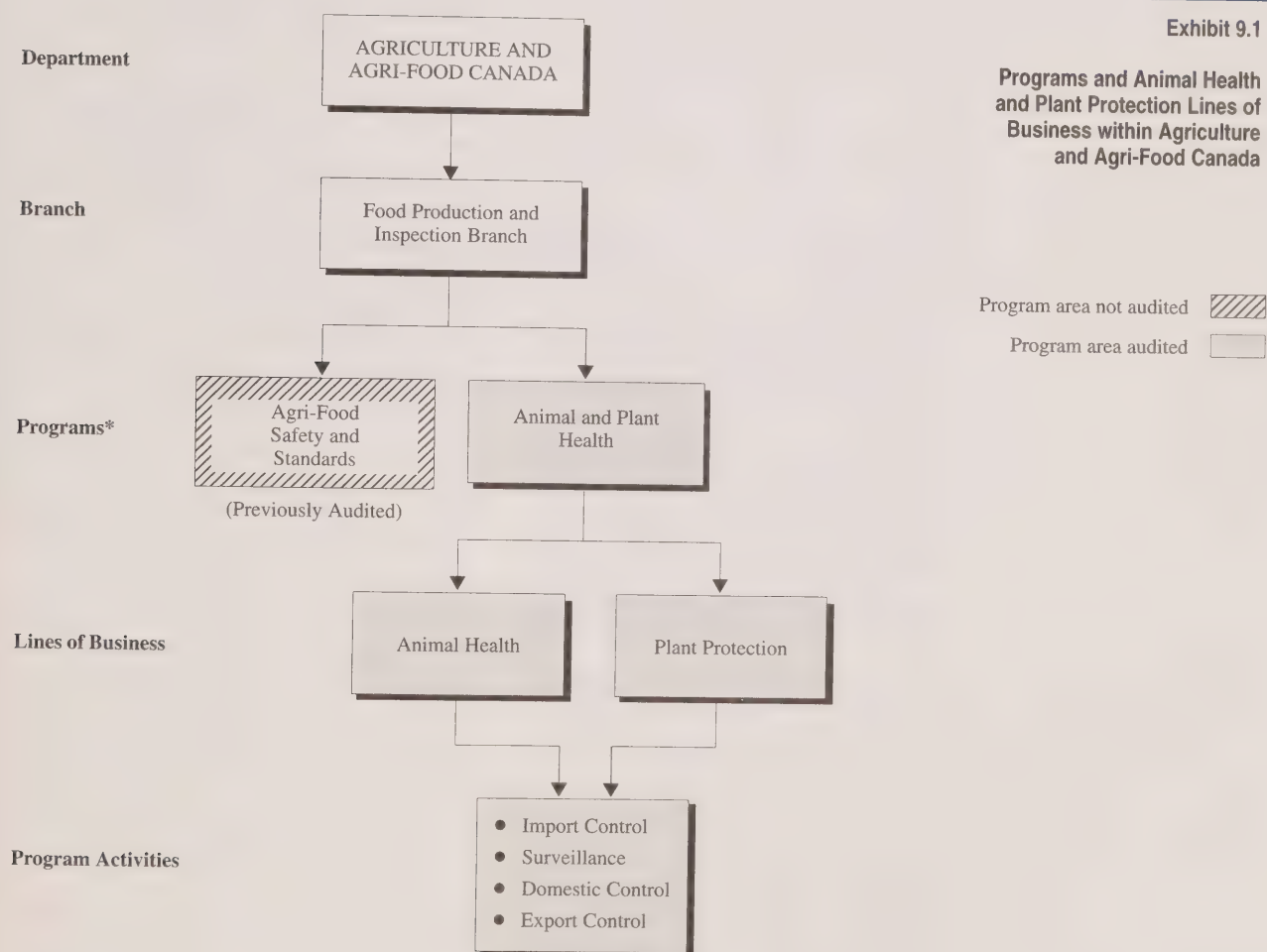
- 9.1** Canada's relative freedom from animal diseases and plant pests and its high health standards have contributed significantly to our nation's ability to export annually over \$17 billion of agriculture and forestry products. International recognition of the health status of our domestic plant and animal resources is necessary to maintain access to export markets.
- 9.2** The changing global agricultural economy has increased the pressure on the Department to allow additional imports, increasing risk to Canada. The Department has responded by assessing the risk of imports and by reacting quickly to threats identified. At the same time, the Department has made extensive efforts to realign its business approach to health protection, while also responding to significant resource reductions.
- 9.3** The Department has developed a risk assessment process and, as a result, is recognized internationally as a leader in this area. The process provides the Department with a scientific basis to assist in making risk management decisions. Domestic health threats, regulated diseases, weeds and toxic substances have not been and will not be assessed in the foreseeable future, using this analytical tool, unless the emphasis shifts away from import trade-related activities. Consequently, the Department lacks sufficient reliable information to rank threats based on greatest risk, set priorities on a program-wide basis or demonstrate that it has made the best use of its available resources.
- 9.4** Program objectives have been expressed in measurable terms. However, management has developed few performance indicators or other summary information to allow parliamentarians to understand and assess planned and actual performance and departmental action in response to serious outbreaks of diseases and pests.
- 9.5** Over 1,100 managers, inspectors and laboratory staff deliver the Animal and Plant Health Program, at a cost of more than \$100 million a year. While the Department has acted on a number of opportunities for cost reduction and cost avoidance, it continues to operate the Program and to plan future activities without rationalizing the need for the existing level of resources.
- 9.6** Cost recovery has been implemented for some services previously provided without charge and will be expanded to others, to offset significant reductions in program funding. Considering the difficulties associated with maintaining industry competitiveness and international market access, with identifying beneficiaries and with developing a flexible and consultative approach to cost recovery, the Department has made progress over the short term. Our main concern is that the amounts currently being recovered fall at least 60 percent short of the full costs of delivering the service — service of which industry is the primary beneficiary.

Introduction

9.7 Agriculture and Agri-Food Canada administers three Acts of Parliament related to animal and plant health — the *Health of Animals Act*, the *Plant Protection Act* and the *Seeds Act*. These Acts authorize the Minister of Agriculture and Agri-Food to control a large number of plant pests and diseases and toxic substances that affect animals. The Animal and Plant Health Program involves two “lines of business”: animal

health and plant protection (see Exhibit 9.1). For each of these lines of business the Department carries out the following types of activities:

- import activities — to prevent the introduction into Canada of undesirable/quarantinable diseases, insects, weeds and other dangerous entities of plant and animal origin;
- surveillance activities — to identify, control or eradicate undesirable/quarantinable diseases, insects, weeds and other



* These Programs are set out as sub-activities of the Inspection and Regulation Activity in the Department's Estimates Part III.

dangerous entities of plant and animal origin that gain entry into Canada;

- domestic activities — to prevent, control or eradicate identified domestic animal diseases and plant pests of significance to human health and the economy; and
- export activities — to provide inspection and health certification required for agri-food products being exported or traded interprovincially and internationally.

9.8 Our audit focussed on assessing the regulatory and inspection aspects of the Department's Animal and Plant Health Program. Other aspects of the food production process (see Exhibit 9.2) were not part of our detailed examination. Details about the objective and scope of our audit are presented at the end of the chapter.

9.9 In the 6 March 1996 Budget, the government announced its intention to introduce legislation to create a single Food Inspection Agency that will include the activities of the Animal and Plant Health Program examined in this audit. This decision does not affect the nature, significance or relevance of the observations and recommendations contained in this chapter.

A Period of Program Realignment

9.10 Our last audit of the Animal and Plant Health Program was in 1988. At that time, we were concerned that the existing *Plant Quarantine* and *Animal Disease and Protection Acts* and Regulations were outdated and required amendments to provide needed sanctions and authorities. In 1990, the passage of the *Plant Protection Act* and *Health of Animals Act* provided a new program framework by permitting qualified persons other than public servants of Agriculture and

Agri-Food Canada to carry out the duties under the legislation, and provided for a departmental cost-recovery mechanism.

9.11 During 1991 and 1992, the Department came under pressure as significant costs and problems were encountered in the control of tuberculosis-infected elk in northwestern Canada and a viral disease in potatoes in Atlantic Canada. In addition, international trade issues, combined with increasing demands of producers, industry associations, communities, the provinces and agricultural diversification, rapidly escalated the need for a change in the approach to disease and pest control in Canada.

9.12 The period from 1992 to 1996 has been very busy for those involved in the Department's Animal and Plant Health Program. Not only did they have to continue carrying out ongoing activities, respond to significant resource reductions and manage disease outbreaks, but they were also involved in an extensive effort to realign the entire federal approach to animal and plant health protection that had served agriculture for over 100 years.

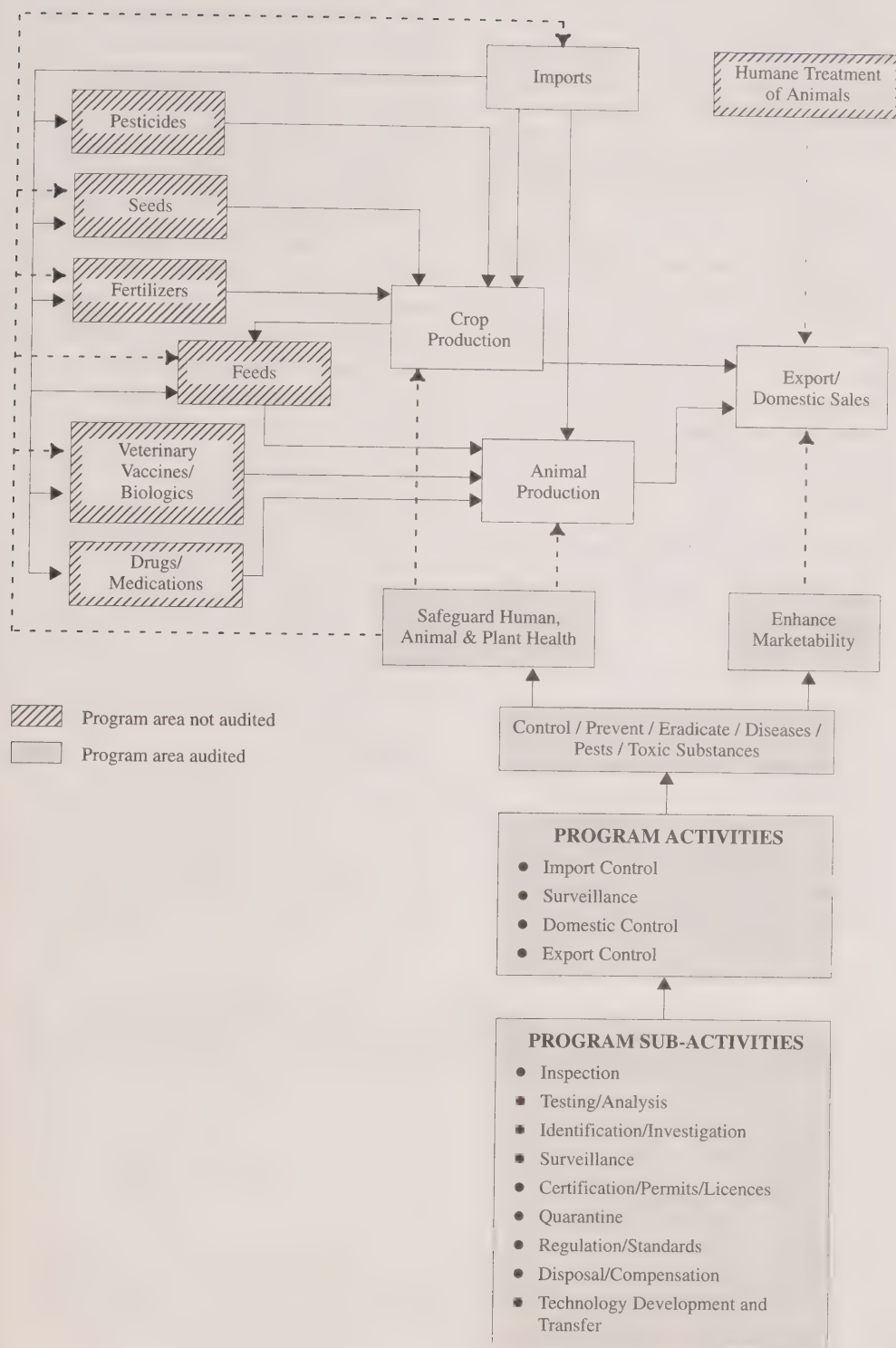
9.13 In 1992, the Food Production and Inspection Branch conducted a regulatory review of the *Health of Animals Act*, the *Plant Protection Act* and the *Seeds Act* with a view to improving industry competitiveness, using government resources more efficiently and effectively, reducing costs and improving service to industry and consumers, and ensuring an appropriate relationship between the costs and benefits of the regulatory regime.

9.14 In 1993, the Branch issued policy direction through a document called the *Business Alignment Plan*, intended to change program delivery to meet the following four objectives:

Exhibit 9.2

Animal and Plant Health

Agricultural Production
Process and Program



Canada's relative freedom from serious pests and diseases contributes to the marketability of its agricultural and forestry products.

- to move toward a market-driven system that uses market forces to determine the value and need for a service by industry;
- to redefine the roles of governments and the private sector in the delivery of its regulatory programs and services;
- to have the beneficiary assume the responsibility for paying for the cost of the service; and
- to establish a mechanism that allows adaptation to future changes.

9.15 The Department believes that developing a new "partnership culture" involving other federal agencies, provincial counterparts and industry is at least as important as having a businesslike approach to delivering service.

Understanding the Role of the Department in Animal and Plant Health

9.16 Dealing with threats to human, animal and plant health and facilitating trade is a large part of the work of the Department's Food Production and Inspection Branch. One aspect of this work deals with threats to Canada's agriculture and forestry industries and requires programs and activities that will protect the health of this resource base.

Canada's relative freedom from serious diseases and pests contributes to the marketability of its agricultural and forestry products. For 1995, the total value of Canada's agricultural and forestry products, excluding lumber and sawmill products, exceeds \$50 billion. Exports of primary agricultural and forestry products, excluding lumber and sawmill products, total approximately \$17 billion a year.

9.17 The budget for the Branch's Animal and Plant Health Program is approximately \$107.4 million a year (see Exhibit 9.3), based on 1994-95 operating expenditures of \$74.4 million for animal health and \$33.0 million for plant protection.

9.18 Canadian industries affected by the Animal and Plant Health Program are varied, diverse and distributed throughout the nation. The primary industries are raising animals and growing plants for food and other purposes. Others involve purebred stock, horses for racing and pleasure, pets, zoo animals, ranch game species, wildlife in recreational areas and wildlife habitat.

9.19 Canada's agricultural and forestry industries continually look for animal and plant products from other countries to enhance the productive capacity of existing resources or to develop new

Exhibit 9.3

Program Expenditures for 1994-95

	(\$ millions)	
	Animal Health	Plant Protection
Import	16.9	7.7
Export	19.7	6.7
Domestic Control and Surveillance	22.4	11.5
Other*	15.4	7.1
TOTAL COSTS	74.4	33.0

Source: Food Production and Inspection Branch's 1995 Business Alignment Plan

* Other costs include equipment, minor construction, accommodation, and corporate overhead. These costs are non-recoverable from user fees.

products and markets for consumption domestically and internationally. Importation is therefore conducted in an environment where health risks have to be assessed and managed.

9.20 Canada has laws and regulations to prohibit or restrict the entry of animals or plants and their products from foreign countries. The Department uses several tools in Canada and in the country of origin to reduce the risk of importing health threats. In almost all cases, import permits are required for each shipment to control the movement of foreign animals or plants that may carry a disease or pest that poses a threat to human health or the economy. Further, the Department usually requires diagnostic tests for specific conditions, certification of the health of the commodity, and attestation by the foreign government that the procedures and requirements as set out in the import permit have been met. In addition, retesting, reinspection, and quarantine upon entry into Canada may be required to provide additional assurances.

9.21 As a further control over imports, foreign animals and plants are subject to possible inspection at land, sea, air and mail ports of entry into Canada. Millions of tourists and approximately 250,000 immigrants and their effects arrive annually. Customs officials detain goods and notify inspectors from Agriculture and Agri-Food Canada as animal and plant commodities arrive at the border with passengers or cargo.

9.22 The Department is charged with eradicating or controlling undesirable foreign or indigenous animal diseases or plant infestations that have serious economic implications for Canada, and with protecting the Canadian public against life- and health-threatening diseases from animals within Canada. Canadian law requires that certain

diseases and pests identified in Canada be reported to the Department. To fulfill its mandate, the Department conducts investigations, monitors and identifies diseases and pests, controls outbreaks (i.e. testing, isolation, treatment, destruction and disposal) and restricts the movement of animals and plants in specified circumstances. Several laboratories support these activities by providing diagnostic services, expert advice and technology development and transfer.

9.23 The Department's involvement in export operations is driven by international conventions that, for most plant and animal exports, require Canada to certify that the commodities meet the import requirements of the destination country. These requirements are negotiated between Canada and the importing country, and may involve inspection, testing and pre-shipment quarantine in Canada. Export market access is also dependent on maintaining international acceptance of Canada's domestic control and surveillance activities.

9.24 Because Canada exports a much greater volume (and value) than it imports, export certification requires significantly more resources. For many years, Canada has used accredited veterinarians to certify the health of animals, with the Department "endorsing" their work through monitoring. The use of accreditation is being expanded to cover the export of certain low-risk plant products to the United States and the export of seeds. Canada remains responsible for monitoring the accredited professionals and for ensuring that the quality of the service they provide continues to meet the standards required by our trading partners.

9.25 Unlike imports, exports do not threaten the health of Canadians or

Canada is recognized internationally as a leader in the development of scientific risk assessment.

Canada's animal and plant resources. The direct beneficiary of these services is the exporter, whose access to markets is protected. The only significant risk for Canada is an economic one, in that exporting an unhealthy animal or plant that does not meet the import requirements of the recipient could threaten future exports to that country or other countries. This could, in turn, damage the Canadian economy and accordingly affect a much broader base of Canadians.

Observations and Recommendations

Program Design and Delivery

An internationally recognized risk assessment process has been developed

9.26 The Department has defined risk assessment as a process that systematically identifies threats that affect the health of humans, animals or plants, and the probability of negative consequences. It has further noted that systematic risk assessment provides the scientific basis for managing those threats. These interpretations are consistent with those of the international animal and plant health organizations to which Canada belongs.

9.27 To facilitate the risk assessment process and in response to our recommendation in 1988, the Department has developed the Animal and Plant Health Risk Assessment Network (APHRAN). This risk assessment process allows the Department to answer these questions:

- What is the threat?
- What is the probability of entry, transmission and spread?

- What are the biological, economic and environmental impacts?

9.28 In developing this process the Department now has a scientific, systematic and rigorous basis for completing risk assessments. These risk assessments are based on scientific and economic information and the process can be applied to any type of commodity, disease or pest. Further, it meets the standards of international treaties and conventions. As a result of this process, Canada is recognized internationally as a leader in the development of scientific risk assessment.

9.29 The Department has dedicated resources to carry out scientific risk assessments of specific commodities, diseases or pests, using APHRAN. For animal health more than 50 risk assessments have been completed. These cover a wide range of commodities from several countries and include exotic commodities such as embryos and ostrich eggs, as well as more common commodities such as cattle and swine. Close to 300 risk assessments have been completed for plants. These include commodities such as bark (on imported logs), potatoes and apples, and pests such as hemlock woolly adelgid (a pest of hemlock) and corn cyst nematode (a pest of corn). The Department now has developed a common and consistent approach to implement the risk assessment process.

Information is critical to scientific risk assessment and risk management

9.30 The quality and nature of the information used has a direct impact on the value of the completed risk assessment. Disease- and pest-specific risk assessments rely mainly on scientific and economic information about the diseases or pests.

9.31 We found that the scientific risk assessments completed by the Department provide valuable scientific information on the threats associated with specific diseases or pests. However, in 11 cases we examined, the assessment of the economic impact of the threat could be strengthened, improving the overall value of the assessment. More specifically, there was limited information on who would benefit, who would be at risk, the volume and value of the commodity at risk and other commodities that might potentially be at risk, and possible trade restrictions and the value of such restrictions. Sources of economic information are not well developed, making it difficult to assess the economic impact of a threat.

9.32 Commodity-specific risk assessments rely on information about the country wishing to export the commodity to Canada as well as information on specific diseases or pests. Of particular importance is information on new and emerging diseases and pests and on the disease and pest management practices of the exporting country. Therefore, we expected that the Department would integrate scientific and economic information on existing and emerging threats and on disease and pest management practices of an exporting country in the risk assessment process and in managing risk. The Department

continues to develop valuable international contacts and to identify new sources of information. These sources are particularly valuable in providing intelligence on existing and emerging threats internationally, and on the disease and pest management practices of other countries. However, this intelligence comes from a number of sources and some of it is gathered informally. It is also integrated into the risk assessment process in an informal way. In Plant Protection, this is further complicated by the fact that international reporting of pest outbreaks is not as fully developed as it is for Animal Health. As an international leader in risk assessment, there is a significant role for the Department in facilitating the development of early warning systems and reporting requirements by all nations participating in international plant health organizations.

9.33 Exhibit 9.4 illustrates that, as a result of the lack of an international reporting requirement, an emerging threat was not identified as early as possible, which resulted in a delayed response by the Department. As noted in Exhibit 9.5, the Department exposed itself to the risk of importing an exotic pest associated with an imported commodity that was poorly managed and therefore posed a greater risk of carrying pests.

Germany was experiencing a gypsy moth outbreak at the time that military equipment was being returned to Canada due to the closing of the Canadian Forces base there. Once the Department was aware of the outbreak it recognized the potential threat in bringing back equipment from the base. After some equipment had already been returned to Canada, the Department was informed by a contact in the United States that a shipment of American military equipment returning from Germany had been infested with gypsy moths. Agriculture and Agri-Food Canada reacted quickly and, with the Department of National Defence, examined both the equipment already returned and that yet to arrive. In this case, the contacts in the United States proved very valuable in allowing Canada to respond to a threat. However, more formal international reporting requirements may have identified the potential threat before any equipment had been returned.

Exhibit 9.4
Gypsy Moth Alert

9.34 The Department should:

- assess the economic impact of threats more comprehensively;
- facilitate the development of early warning systems and international reporting requirements for pest outbreaks, by nations participating in international plant health organizations; and
- be more rigorous in using information gathered on disease and pest management practices in other countries.

Department's response: Canada is recognized as a world leader in risk assessment. In 1994, the Department formally incorporated economic impact assessments of potential disease or pest threats as a component of the APHRAN risk assessment model. Notwithstanding the challenges posed by constantly changing international trade patterns and market conditions, the Department accepts that there is room to enhance the

application of this relatively new tool as part of its overall risk analysis process.

As a complement to existing international disease/pest information and intelligence gathering and monitoring practices, the Department will continue to advocate the need for more formalized transparent, co-operative international approaches.

Several projects have already been initiated to address these concerns. They include:

- *the proposed development of an instrument to assess the competency of the regulatory sanitary infrastructure in other countries;*
- *the formalization of an agreement in principle with several major trading partners to share risk assessments, inspection reports and audits undertaken of third countries;*
- *the establishment of a geographic-based international trade team to build relationships with regulatory counterparts in assigned areas and to better network with agricultural trade and*

*Gypsy Moth – male adult
(see Exhibit 9.4)*



commercial staff at Canadian embassies abroad; and

- *the establishment of a position to provide economic impact assessment to support the risk management process.*

Scientific risk assessments have focussed on import trade-related activities

9.35 Given this internationally recognized process, we expected that the Department would rigorously apply it to all regulated diseases, pests, weeds and toxic substances.

9.36 To date, the main focus of the assessments has been on specific import requests, reflecting the emphasis the Department is placing on trade-related activities to protect Canada's health status and the urgency associated with import requests. The completed assessments for import requests have been considered in modifying program design and delivery. Most regulated pests have been subjected to scientific risk assessments, but no assessments have been completed on regulated diseases, weeds or toxic substances. Tuberculosis, brucellosis and rabies, which consume 90 percent of the animal health resources allocated to domestic activities (\$22.4 million), have not undergone scientific risk assessments.

Unless the emphasis shifts from consideration of import health threats, domestic health threats as well as regulated diseases, weeds and toxic substances will not be assessed in the foreseeable future.

9.37 While regulated-disease assessments rarely have the urgency of trade health-related assessments, the Department's mandate implies that it needs to be able to demonstrate how it has dealt with threats while balancing its responsibilities for domestic health issues and trade obligations. As the demand increases for services to facilitate international trade, so does the importance of having a means to ensure that domestic health issues and trade obligations are balanced appropriately.

9.38 Currently, diseases, pests and weeds are regulated while toxic substances are not. The Department has interpreted its role as proactive with respect to diseases and pests and reactive with respect to toxic substances. It does not actively encourage preventive measures and takes action only if advised that animals have been exposed to or contaminated by toxic materials. As a result, regulations have not been developed on tolerance levels and

Risk assessments have not been completed for regulated diseases, weeds or toxic substances.

The Department has interpreted its role as proactive with respect to diseases and pests and reactive with respect to toxic substances.

The Department accepted apples for importation based on a scientific risk assessment and followed its practice of permitting entry on a trial basis. Information supplied by the exporting country on the pest management practices, more specifically the processing and packaging practices, of the country of origin was considered in the scientific risk assessment. Nevertheless, upon arrival in Canada the apples were inspected and found to be infested, and required treatment.

Earlier applications for import were denied because the country of origin did not provide sufficient information for Canada to adequately assess the pest management practices. After sufficient information was obtained, trial shipments of apples took place. When pests were intercepted during these trial shipments, Canada realized that modifications to the import conditions were needed.

The arrival of infected apples in Canada demonstrates that reconsideration of the scientific basis for import approval may be required, once actual importation takes place. This case also shows that import approval needs to anticipate possible changes in the import conditions, and that stricter import conditions may be necessary in certain situations.

Exhibit 9.5

Infested Apples

standards for toxic substances that may affect animals or be transmitted from animals to humans. The Department's interpretation of responsibilities set out in the *Health of Animals Act* for diseases is not the same as for toxic substances.

9.39 The Department should:

- **complete scientific risk assessments for all regulated diseases and pests, as well as for other significant diseases, pests, weeds and toxic substances; and**
- **ensure that it is meeting its legislative responsibilities in the priority it assigns to toxic substances that may affect animals or be transmitted from animals to humans.**

Department's response: The Department accepts the recommendation. Progress against this recommendation will reflect an appropriate balance between the need to conduct these risk assessments and the Department's commitments to other higher-risk areas such as incursions of diseases of major economic, health and safety significance (i.e. bovine spongiform encephalopathy and karnal bunt) and to international trade obligations. Closer integration between programs and the Animal and Plant Health Risk Assessment Network is planned to ensure that consensus agreement exists in establishing risk assessment priorities.

The establishment of the Single Food Inspection Agency will provide a tighter integration of standards development between animal and human health risks. The Department will carry out a risk assessment to identify and prioritize known toxic substances.

Program-wide priorities and resource allocation not based on scientific risk assessment

9.40 We also expected that to manage risk, the results of scientific risk assessments would be incorporated with

social, economic and political considerations and trade obligations in setting priorities and allocating resources at a program-wide level. Recently the Department completed two risk-based initiatives in which ratings of high, medium or low risk were assigned to generic import commodities, to assist in import decisions and to permit elimination of regulatory involvement in no-risk commodities. These initiatives reflect ongoing efforts by the Department to consider risk and these other considerations and obligations in setting priorities. A similar initiative for domestic activities has not been conducted. These initiatives need to be expanded to all activities so that priorities can be set and resources allocated among the various lines of business.

9.41 An approach has been developed for ranking plant pests based on questions of biological significance covered in the APHRAN process. A similar approach for ranking animal diseases has not been developed. This approach for ranking plant pests could be used to categorize risks into high, medium and low for all domestic health threats of economic significance as well as regulated diseases and pests. This categorization would allow the Department to focus future scientific risk assessment efforts on the highest-risk areas and to incorporate the results in program-wide priority setting and allocating resources. Further, the level of federal involvement in medium- and low-risk threats could be reassessed. For low or no risk, federal involvement could be reduced or possibly discontinued.

9.42 With increasing pressure to reduce resources, basing priorities on risk becomes more important. Yet it must be recognized that scientific risk assessment is a complex and time-consuming activity. When it is used for program-wide priority

With increasing pressure to reduce resources, basing priorities on risk becomes important.

setting and allocating resources there is the added complexity of making decisions on risk involving diverse program activities (animal health and plant protection), each dealing with different commodities and each posing different degrees of risk to health or to international trade.

9.43 Since our last audit of this Program in 1988, the responsibility for the day-to-day risk management has been delegated to the regions. This change has given the regions flexibility to adapt their operations to specific regional needs and circumstances. However, as the responsibility for program delivery becomes more decentralized, the concept of a national program may become threatened. Decisions on resources within the regions are complicated by the need to justify resource allocations among animal health, plant protection and the Branch's other lines of business (for example, meat hygiene).

9.44 The plant protection line of business began developing its plans for the 1996–97 fiscal year using a regionally focussed approach that incorporated consideration of risk based on the cumulative knowledge and experience of both the national and the regional plant protection managers. While the determination of risk was not as rigorous as formal risk assessments would be, the approach was a reasonable attempt to consider risk in allocating resources.

9.45 For animal health, there has been an attempt to prioritize the various

components and activities of the animal health line of business using the practical experience of animal health staff. This has not significantly affected the allocation of resources, although the import inspections of low-risk animal products and by-products may be decreased or discontinued. Without the assurance provided by risk assessment, the current approach could result in resources being allocated to areas that do not pose the highest risk.

9.46 Canada declared itself virtually free of brucellosis in 1985 and subsequently reduced testing, primarily based on the evidence of low incidence of this disease. The incidence of confirmed cases of brucellosis in Canada decreased from one in 1988–89 to zero in 1994–95 and the number of tests conducted and staff assigned have been reduced (see Exhibit 9.6). The Department has recently established a centre of expertise to deal with this disease, even though the number of tests conducted and resources allocated for brucellosis have not been based on a scientific risk assessment. Testing is carried out at a level accepted by trading partners, but may exceed appropriate levels relative to other program risks.

9.47 The Department should make more effective use of scientific risk assessments, in conjunction with other considerations, in determining program-wide priorities and allocating resources to program areas where risks are greatest.

The current approach could result in resources being allocated to areas that do not pose the highest risk.

Year	Number of brucellosis tests	Number of reported incidents	Number of staff assigned
1988–89	789,123	1	34
1994–95	428,796	0	24

Exhibit 9.6

A Historical Comparison of Resources Allocated to Brucellosis Testing

Source: Agriculture and Agri-Food Canada

***Department's response:** In addition to scientific risk assessments, the Department's priority setting and resource allocation practices must reflect other important factors such as multilateral trade agreement obligations, risk management and communication concepts, consumer confidence, societal values, industry interests, political realities, resource constraints and international credibility/integrity. The Department will explore opportunities to use risk assessments more effectively in determining program-wide priorities and allocating resources.*

Lack of reliable information to monitor program delivery against plans

9.48 We expected that the Department would compare the actual work performed with the work that had been planned. We expected that the Department would know, as a minimum, whether desired inspection levels were being achieved, what had not been inspected but should have been, and what diseases or pests were found as a result of the inspections. This includes import, export, surveillance, and domestic activities.

9.49 During 1995–96, the Department introduced the first phase of a new information system, the Resource Management System. It tracks the number of inspections performed and the resources used based on time standards, but does not track the volume of products inspected and not inspected. The new system is an improvement in that it provides uniform time standards for activities, making comparisons among regions possible. The Department has indicated that it also plans to use the new system to identify locations with efficient inspection practices that can be used to improve operations at other locations. However, there is a risk that gaps are not identified between what needs to be inspected and what actually is inspected.

Since the Resource Management System does not track commodity shipment totals, it is not possible to determine whether 50 percent or 10 percent of a specific commodity has been inspected. This information may be known by less formal means in the regions, but is not regularly available to or monitored by program managers at headquarters.

9.50 Both the new system and the old system show considerable variation between the planned and actual number of inspections for any given region. We were advised that these differences were the result of unexpected fluctuations in the volume of products inspected. The regions need to have the flexibility to respond to unexpected volumes of shipments. But any increase in inspections of one commodity would be at the expense of the level of inspection planned for a different commodity. We found that the extent of such changes during the year by the regions, and the total products available for inspection, currently are not captured or summarized even though this information would be valuable for future years' planning.

9.51 The fact that some high-priority inspections were not being performed was included in a recent departmental evaluation report on plant protection. As currently designed, the Resource Management System will not identify those areas where work was not performed but should have been. Data on actual inspections compared with target levels would help managers correct program delivery problems sooner.

9.52 The new system also does not track the results of inspections. This would be useful for costing purposes. Also, the number of "problems" identified during inspections would provide valuable information about the actual incidence of disease and pests experienced by each

region. This information is crucial to resource allocation. Changing patterns in disease or pest incidence could also be used in future years' planning as a basis to reallocate resources among regions.

9.53 Enhancements to the Resource Management System are planned for 1996–97, but these will not address the lack of information on inspections performed. The system does track activities performed and thus provides information for billing of services performed by the Department. However, its usefulness as a management tool is limited by the lack of performance information and of variance reporting.

9.54 The Department should ensure that it has reliable management information that allows a comparison of planned and actual program delivery, and explain how variances from plan will be addressed.

Department's response: One of the major undertakings of the Food Production and Inspection Branch in 1994 was the development of a sophisticated computer-based system that tracks the work of inspectors.

The first phase of the Resource Management System (RMS) was implemented last year. The need for increased accountability was identified by the Department as a priority through an internal review. As a result, enhancements to the RMS planned for implementation in fiscal year 1996–97 will enable the Department to set out national standards based on inspection priorities that target resources for program delivery. Actual resource utilization will be measured against planned, allowing management analysis and decisions on reallocation of resources, program priorities, etc.

Opportunities for efficiencies need more examination

9.55 In addition to having the necessary information to allocate resources properly and to compare planned activity levels to those delivered, the Department must be able to determine whether the program activities are being managed properly. We expected that there would be clear measures of program performance that could be used by program managers to improve the efficiency and effectiveness of program delivery. This information is necessary to answer questions such as:

- How successful is a particular port of entry in preventing the introduction of diseases and pests?
- Has the rate of compliance improved since the introduction of the revised regulations?
- Do current shipments from a particular country contain fewer pests than one or two years ago?

9.56 We found that information to answer these questions was not readily available. The Department does not make it a regular practice to collect and summarize the incidence of diseases or pests found during inspections. It does collect this type of information for inspections of passengers on international flights at major airports, but this is done months later, and represents only a small portion of the total number of inspections done during the year. Nevertheless, this type of result is a useful performance indicator for program delivery at both a regional and national level.

9.57 There are other performance indicators currently being piloted by one of our major trading partners that have relevance to Canada. These indicators would attempt to measure the threat of diseases and/or pests gaining entry to

High-priority inspections were not being performed, according to a recent departmental evaluation report on plant protection.

Opportunities for efficiencies may go undetected because of the lack of performance indicators.

Canada and the success of the program in intercepting them. Some of these include:

- **Pest Threat Rate** — an estimate of the proportion of units (cars, passengers, etc.) approaching a port of entry while carrying diseases or pests that could put Canada's agricultural and forest sectors at risk;
- **Interception Gap** — the difference between the estimated number of diseases and/or pests approaching a port of entry less the number actually intercepted; and
- **Targeting Efficiency Ratio** — a measure of how much more effective risk-based inspections at ports of entry are than those carried out randomly.

9.58 These performance indicators, or others with similar objectives, could provide the Department with additional information on whether the threat of pests gaining entry to Canada is increasing or decreasing; whether the Department is being more or less effective in intercepting pests before they gain entry; and how effective the Department is in focussing its limited inspection resources on high-risk shipments.

9.59 The Department has made efforts to improve its efficiency and effectiveness in several areas. For example, it initiated the Enhanced Import Operations project in 1993, with the objective of improving import compliance and service for shipments from the United States. One of the project's goals is to increase the co-ordination between departmental inspectors and customs inspectors. The project also intends to accelerate the verification of documentation accompanying low-risk commodities, for importers who use the service frequently. Enhanced Import Operations plans to increase the effectiveness of import operations while providing a small cost saving through reduced overtime. While the project has not yet been implemented

fully, it may eventually improve program monitoring by providing better information on the number of shipments inspected and not inspected.

9.60 A second example of the Department's efforts to increase effectiveness is the use of "blitz" inspections. At various times in the past three years the Department has conducted a "blitz" at import border points. A blitz is unannounced and involves a complete inspection of all agricultural shipments, or those of a specified commodity. As the use of blitzes continued, there was evidence of increased compliance with import regulations. This change was largely related to better compliance with documentation requirements. Since 1994-95, responsibility for blitzes has shifted to the regions, with the result that blitzes may receive a different priority in each region. Since blitzes have a deterrent effect, headquarters needs to ensure that an appropriate number of blitzes are carried out in all regions. Blitzes could also be used to validate the choice of performance indicators and the effectiveness of targeted inspections.

9.61 While some efficiencies in program delivery have been initiated, opportunities for others may go undetected because the lack of performance indicators inhibits their identification. For example, border inspection is an area where potential changes could increase the efficiency of program delivery. (See Exhibit 9.7 for details.)

9.62 Also, by questioning how well the Program is delivered it is possible to improve effectiveness without incurring additional costs. Inspection at airports is an area where changes could increase effectiveness without additional cost, as shown in Exhibit 9.8.

9.63 The Department should further examine inspection and other activities with a view to identifying and implementing additional efficiencies in program delivery. The Department should develop and use performance indicators that will aid in identifying opportunities to improve the efficiency and effectiveness of program delivery.

Department's response: The Department is committed to pursuing creative and alternative means of achieving program goals. The Department will continue to build on improvements to program efficiency achieved through its three-pronged approach of cost avoidance, cost reduction and cost recovery for services; internal reviews; and the 1991 Regulatory Review.

Program managers will endeavor to ensure that policies and procedures are reviewed to provide for the most efficient means of delivery to maintain program integrity without incurring regulatory liability. The program divisions are also committed to improving performance indicators, measurement tools and corporate workplan development. Communications with other regulatory

agencies in Canada and abroad have identified models that could be adopted for use.

Readiness to respond to unanticipated threats is uncertain

9.64 Regardless of the number of inspections performed, or the stringency of the inspections, it is inevitable that a foreign animal disease or exotic pest will enter Canada. We expected that when faced with the incursion of a foreign animal disease or exotic pest, the Animal and Plant Health Program would be prepared to respond quickly and effectively.

9.65 In the past, the Department has reacted quickly to a number of threats, including Asian gypsy moth, bovine spongiform encephalopathy (mad cow disease — see Exhibit 9.9), blueberry maggot and vesicular stomatitis, by taking action to control or eradicate the disease or pest before it could spread. The emergency response actions taken in these cases were not based on the emergency response manuals, but rather were managed through committees that were formed to deal with each threat. Internal

We found that manuals were used in only one of the disease and pest incursions responded to by the Department.

Number of border inspection points. There are currently 215 ports of entry (border inspection points) where agricultural inspection services are offered, including airports, seaports, land border points and bonded warehouses. The majority of these ports of entry do not have agricultural inspectors on site at all times, but inspectors provide the necessary inspection services when called to the port.

As early as 1992, as part of the regulatory review, the Branch recognized that there were potential savings in limiting the number of ports. Internal studies have indicated that 65 ports account for 97 percent of the volume of import traffic. Consultation with industry has shown an expectation for continued services at a similar number of ports. Although the Department has considered limiting the number of ports at which services are provided, it has not approached Cabinet for approval to make such a reduction.

For the remaining 150 ports representing only 3 percent of the volume, inspections are infrequent and are carried out by inspectors who travel from other inspection offices to the port of entry. Many commodities are low-risk and are released without agricultural inspection. Infrequent inspection at a large number of ports of entry reduces the assurance that inspection procedures are carried out consistently. A reduction in the number of ports of entry would reduce this risk and would generate a small cost saving. If industry requests inspections at ports that do not warrant inspectors on site at all times, then the Department could recover any incremental costs associated with such inspections.

Exhibit 9.7

Further Efficiencies Possible

reviews of the emergency response actions were completed subsequent to the elimination of the threat so that the Department could take advantage of the lessons learned from its response.

9.66 To assist in departmental preparedness, the Department has developed manuals on emergency responses to foreign animal diseases and plant pests. These manuals provide guidance on who is responsible in an emergency and how they should respond. When the manuals were developed, training sessions were held across the country to educate staff on how to use them. Despite this effort, we found that the manuals were used in only one of the disease and pest incursions responded to by the Department. While several joint simulations involving headquarters and one or two regions have been completed, nation-wide simulations involving all regions at the same time have not been

completed to ensure a uniform measure of readiness. Determining the need for regional simulations is at the discretion of each region. The result is that not all regions perform regular simulations. Similar to the emergency response review, simulations would highlight areas in the Department's response that need improvement and would help ensure readiness for an actual emergency. We also found that the manuals were not updated to reflect the lessons learned from actual emergency response cases or from simulations conducted. A new initiative to update the manuals and make them more user-friendly is currently under way. The Department is also preparing documents for a number of foreign animal diseases to aid in industry's understanding of procedures in the event of an incursion.

9.67 The Department should conduct regular simulations and maintain updated procedures manuals

Exhibit 9.8

More Effective Use of Available Resources

Inspection of travellers at airports. During 1994-95, 11 million travellers arrived in Canadian airports on flights from other countries. On arrival, travellers are asked whether they are carrying any agricultural products and have visited or will visit farms. Based on their responses, a sample of travellers is selected for further examination. Currently, agricultural inspectors at airports in Canada inspect goods or travellers' effects primarily when called upon by Revenue Canada customs inspectors. Flights arriving from origins having a higher risk of diseases and pests are intended to be sampled at a higher rate. However, no attempts have been made to measure the actual "threat rate" to Canada, and the Department does not estimate the number of high-risk goods that go undetected each year. In recent years the Department has used a limited number of "detector dogs" to help search for hidden animal and plant products in travellers' luggage.

There is an opportunity to increase the effectiveness of these activities. Procedures at airports are designed to intercept diseases and pests, but they could be designed to deter or prevent their introduction by being more visible. The awareness of travellers from high-risk countries that their effects are subject to a high level of scrutiny would be increased if these inspectors were more visible to the traveller and if there were greater use of "detector dogs". Spot inspections could also be performed, and these inspections would help to determine whether customs officers had been able to identify all appropriate referrals for further inspection.

Agricultural inspectors and detector dogs serve not only a functional role but also a deterrent role that could dissuade travellers from bringing restricted goods with them. The Department acknowledges that resources can be used more effectively and has indicated it will conduct, in conjunction with Revenue Canada, a study of inspections of travellers at airports and land border crossings.

to better ensure a readiness to respond to an incursion of a serious disease or pest.

Department's response: The Department appreciates the Auditor General's recognition of its quick responses to past threats including Asian gypsy moth and bovine spongiform encephalopathy (mad cow disease).

Regional simulations of emergency situations will continue to be held. Training initiatives and technical manuals are being revised in the key areas of cleaning/disinfection and

disposal/destruction. A contingency has been established to utilize emergency response opportunities and disease outbreaks external to Canada as training opportunities for critical elements of national and regional emergency situations. Also critical to emergency preparedness is the Department's ability to detect/diagnose threats, train personnel in recognizing pest and animal diseases and appropriate response measures, provide scientific advice and develop improved detection technologies. Agriculture and Agri-Food Canada centres of expertise for plant quarantine pests and foreign animal diseases perform these functions.

In 1993 the Department responded to the first confirmed case of bovine spongiform encephalopathy in North America. The disease, also referred to as "mad cow disease" because of the effects it has on the behaviour of infected animals, is a slowly progressive fatal nervous disorder of cattle. It has claimed more than 160,000 cattle in the United Kingdom since it was first identified in 1986 and is currently threatening the national herd there. The circumstances that scientists believe led directly to the widespread nature of the disease in the United Kingdom do not exist in Canada.

The Department was aware of the situation in the United Kingdom, and in 1990 stopped allowing the importation of live cattle from there. A surveillance program was also implemented in 1990, involving the tracing and routine examination of all cattle imported from the United Kingdom between 1982 and 1990, which covered the known incubation period of the disease.

On 8 December 1993, the Department confirmed a case of bovine spongiform encephalopathy in central Alberta. The owner had notified departmental inspectors about unusual symptoms associated with bovine spongiform encephalopathy, as owners had been instructed to do. The cow had originally been imported from the United Kingdom in 1987, along with seven other animals.

To protect both the Canadian cattle herd and related export markets valued at \$1.7 billion, the entire herd in which the infected animal resided was destroyed, as well as all offspring of the infected animal. All other cattle imported to Canada from the United Kingdom since 1982 that were still alive were also destroyed. In addition, all offspring born in Canada whose parents came from infected herds in the United Kingdom were destroyed. As a final precaution, the carcasses of all destroyed animals were incinerated. The Department's actions allowed Canada to maintain access to world markets, and no further cases of "mad cow disease" have been identified.

The approach to risk management and communication chosen by the Department to eliminate the threat to Canada posed by bovine spongiform encephalopathy was somewhat controversial at the time, primarily because it involved the destruction of 403 animals — more than just the direct herd mates of the infected animal, including animals with no clinical symptoms of disease. The Department took this action to maintain international markets and public confidence. As the current situation in the United Kingdom demonstrates, fear about the existence of this disease can result in significant reductions in beef consumption and loss of major export markets.

Exhibit 9.9

Bovine Spongiform Encephalopathy ("Mad Cow Disease")

**The Program is
controlling the spread
of most economically
significant animal
diseases and plant
pests.**

Keeping Parliament Informed

9.68 The Department's Estimates Part III is one of the primary vehicles for parliamentarians to review expenditures. Part IIIs are intended to provide sufficient information to understand and assess planned and actual performance. We expected that to give parliamentarians the basic information they need, the Estimates Part III or other readily accessible documentation would:

- clearly explain the objectives of the Program, preferably expressed in measurable terms;
- demonstrate whether the "lines of business" were achieving the results intended, using key performance indicators and other relevant information; and
- relate the "lines of business" and activities to the use of resources to meet the demands for service.

Need to develop indicators to monitor performance

9.69 In the Department's 1995-96 Estimates Part III, the part of its objective for the Inspection and Regulation programs that relates to the Animal and Plant Health Program is "to enhance the marketability of agricultural and food products by eliminating or controlling plant and animal diseases."

9.70 The Department has interpreted its Inspection and Regulation objective more specifically for the Animal and Plant Health Program as:

- prevention of the entry into Canada of exotic diseases, insects, weeds and dangerous entities of plant or animal origin;
- control or eradication of exotic diseases, insects, weeds and other

dangerous entities of plant or animal origin that gain entry into Canada;

- prevention, eradication and control of domestic animal or plant diseases and pests of economic or human health significance; and
- provision of inspection and certification required for agri-food products being exported.

9.71 These statements are a reasonable reflection of the intent of the Animal and Plant Health Program, and the outcomes could be measured. Measurement against specific expectations or targets would indicate whether the Program is achieving the results intended.

9.72 The Animal and Plant Health Program is controlling the spread of most economically significant animal diseases and plant pests. As a result, we believe that most taxpayers would have difficulty identifying cases where disease or pest outbreaks have seriously threatened human health or significantly damaged our export trade. Yet we found that the Department reports only one performance indicator in support of results achieved — the number of foreign diseases or pests that have become established in Canada during the year. The 1995-96 Estimates Part III states that no reportable diseases have become "established in Canada" in the past three fiscal years. In actual fact, at least one pest has become "established" in Canada during this period (see Exhibit 9.10).

9.73 There are two important limitations to the use of "established in Canada" as a performance indicator that need to be explained in the Part IIIs. First, "established in Canada" has different meanings for animal health and for plant protection. Second, the reliability of this indicator is affected by the number of surveys conducted by the Department. In

recent years only about 14 pest surveys have been conducted annually, while potential pests number in the hundreds.

9.74 If clearly explained, substantiated and reported, this indicator would provide valuable insight into the Department's ability to prevent the entry of foreign diseases and pests. As presently reported, however, it is inaccurate and possibly misleading.

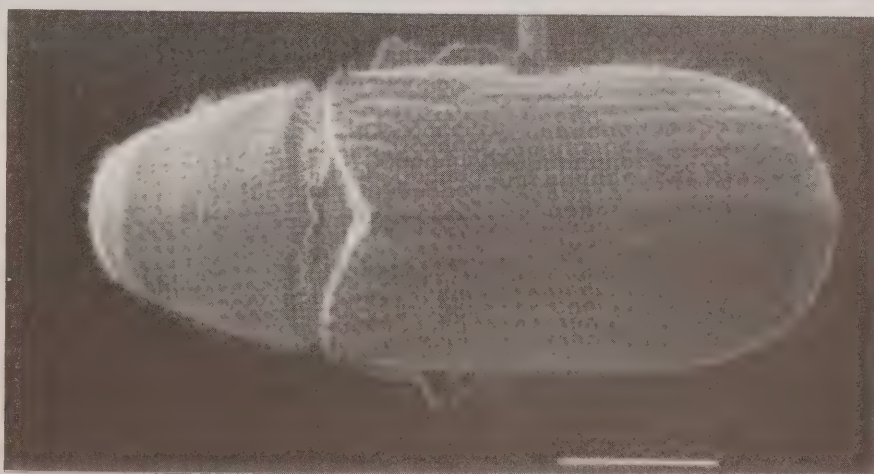
9.75 How the Department responds to disease or pest outbreaks may be relevant for Parliament and is critical for industry. It is not possible to prevent the occasional entry of foreign diseases or pests, no

matter how well designed and managed the Animal and Plant Health Program may be. International conventions require countries to immediately notify their trading partners whenever certain serious diseases (listed in the conventions) are identified. This obligation is designed to protect all trading nations by ensuring that all countries have timely information about potentially serious outbreaks of a disease or pest. Consequently, the Department's tactical response to disease outbreaks is critical to maintaining and/or restoring the market access necessary for trade. Past responses represent what some in the Department believe have been its most significant contributions or results.

The Department's tactical response to disease outbreaks is critical to maintaining and/or restoring the market access necessary for trade.

The pine shoot beetle is a pest native to Eurasia that feeds on young pine tree growth. The first report of the pest occurred in the summer of 1992 in Ohio. Following further reports, the Department began surveys in Canada in 1993 and the beetle was found in seven Ontario counties. Quarantine zones have been imposed in 14 counties in the Toronto-Niagara horseshoe in order to prevent the spread of the beetle to northern pine forests and to other provinces. The real danger is that the beetle could become established in lumber stands where growth and yields could be seriously affected. The Department has not reported to Parliament that this pest is now established in Canada.

The North American Plant Protection Organization defines "established" as "*an introduced pest, present in a country or area, multiplying and expected to continue*". Within that definition are various categories of established pests. The pine shoot beetle meets the definition of a pest that is established within a limited area of distribution and is under active control.



Common Pine Shoot Beetle – adult

Exhibit 9.10

The Pine Shoot Beetle

9.76 Summary information in the Estimates Part III on results achieved in relation to objectives of prevention, control, eradication and export services would give Parliament the necessary performance information that is not currently provided there. This information could be a combination of quantitative information, such as the number of surveys conducted and the number of disease or pest outbreaks being controlled or eradicated, and qualitative information, such as the nature, significance and current status of outbreaks. Qualitative information, as described in Exhibit 9.11, might be provided only for significant outbreaks, whereas full details of all outbreaks, similar to the information already provided to trading partners, could

be available to parliamentarians through other documents.

9.77 The Department also needs to make available summary information on the volume, cost and resource requirements of the important program activities and sub-activities. The Department does provide some information, but it needs to be related more directly to the workload requirements of the activities involved. For example, in relation to the export services objective it would be useful to disclose (on a comparative-year basis) the number of export certificates issued and the value of the export products, the number of full-time staff and cost required to deliver services and the average cost

Exhibit 9.11

Examples of Information for Parliament on Status of Quarantinable Disease or Pest Outbreaks

Nature

- description of disease or pest
- animals or plants affected
- area infected
- likelihood of spreading
- human health impact, if any

Market Affected

- commodities immediately affected
- annual value of commodity sales
- markets immediately closed or restricted

Potential Economic Significance

- other commodities potentially at risk
- export markets potentially at risk
- additional costs to producers, if any

Date First Reported

Actions Planned/Taken

- control or eradication measures
- regulatory changes
- compensation, if applicable

Date Resolved/Expected to be Resolved

Anticipated Cost

- one-time and ongoing costs to the Department
- costs expected to be recovered from industry

per certificate issued. Similar summary information could be provided for other major activities. Such information could be provided through a modification to, or in place of, the information currently shown.

9.78 The Department has improved the information it provides to Parliament about the Program since our 1988 audit, and continues to do so. In the Preface to its 1995–96 Estimates Part III, the Department advises that “a process to completely revise the Operational Planning Framework is under way.” This Framework is used by the Department as the basis for planning, budgeting, expenditure management and performance monitoring. There is an opportunity for the Department to integrate our recommendations in this ongoing work.

9.79 The Department should give parliamentarians access to improved summary information by:

- developing and reporting measurable performance indicators for all aspects of its objectives (prevention, control, eradication and export services);
- specifically identifying disease or pest outbreaks of critical significance to human health or the economy that have occurred, and demonstrating how the Department has managed or reduced the threat to Canada; and
- modifying information on use of resources to be more directly related to workload requirements.

Department's response: The Department agrees that its performance reporting to Parliament needs improvement and is committed to provide an updated and revised set of performance indicators to Parliament in the spring of 1997. These indicators will be identified in conjunction with the development of a new Operational Plan Framework based on

business lines. Planning and reporting against this new Framework will commence in 1997–98. As well, during the 1995–96 consultations with industry, the Department is proposing standards that will describe the level of service that clients can expect in all functional areas.

New Ways of Doing Business

Cost recovery, cost avoidance and cost reduction

9.80 The government's recent program review identified the Department's Animal and Plant Health Program as an area where the use of government resources could be reduced through various means. The program review followed a previous government-wide regulatory review, which had identified opportunities to reduce the regulatory burden on industry and, correspondingly, program costs to government. Based on these reviews, a total of approximately \$23 million was removed from the Program's funding reference levels in the period 1995–96 through 1997–98. This represents approximately 21 percent of the cost of the Animal and Plant Health Program for 1994–95 — a significant reduction in resources. Accordingly, it is critical for the Department to manage this funding reduction well, in order to preserve the integrity of the Program and maintain an appropriate balance between health-related and trade-related objectives.

9.81 The Department developed its Business Alignment Plan in response to these reduced funding levels. As described in its 1995–96 Estimates Part III, “The Department is aligning its program base in response to the market forces shaping the Canadian agri-food sector. Negotiations are under way with groups of stakeholders to select business arrangements that will permit the continued delivery of services critical to industry viability while enabling the Department to implement plans

The Business Alignment Plan was developed in response to significantly reduced funding levels.

addressing the government's fiscal restraint measures." The planned realignment of the program base is proceeding along three main initiatives:

- cost recovery — having the beneficiary of the service share in its cost;
- cost avoidance — having someone other than the Department deliver and pay for the service (for example, privatization); and
- cost reduction — reducing the cost of providing the service through greater efficiencies, eliminating unnecessary procedures or, in some cases, discontinuing the service.

9.82 We expected that in implementing its Business Alignment Plan and in particular its cost-recovery initiatives, the Department would:

- develop a long-term strategy for cost recovery based on identifying the beneficiary of each service provided and recovering costs proportionate to the share of private benefit derived; and
- adopt a consultative and flexible approach with industry.

Industry pays too little for services with little "public good"

9.83 In developing its Business Alignment Plan, the Department looked at the portfolio of services it provided and segregated them into "basic" and "additional" services. "Basic" services were those that the Department considers mandatory and that support the integrity of the Animal and Plant Health Program. These services would be carried out even if no other requests, international requirements, etc. were present. Examples include activities such as explanations and interpretations of regulations, acts and policies; border point and import monitoring programs for health and safety; production inspection and/or

monitoring at a frequency based on risk; and disease control.

9.84 "Additional" services were defined by the Department as those provided in response to requests from industry, foreign country requirements, etc. Examples include activities such as: completion/endorsement of export health certificates; inspection services upon request; laboratory analysis in support of "additional" services; and so on.

9.85 The Department also examined its activities from a slightly different perspective. It stated that a "beneficiary pays" philosophy should be adopted whenever there was an identifiable beneficiary of a service. A discussion paper prepared by the Department argued that "beneficiary participation in program funding will encourage a more realistic demand for services. Beneficiaries will determine which programs are worth supporting based on market forces (i.e. benefits vs. costs). This will facilitate the transition from government-run regulatory programs to industry-operated quality management programs for disease/pest control."

9.86 The Department noted that most of the activities conducted by the Animal and Plant Health Program had several beneficiaries, and that "such programs should therefore be operated as partnerships: business arrangements in which beneficiaries will be able to participate in program design, development and delivery, as well as funding." While this may be quite appropriate, it can lead to complexities in identifying the beneficiary who should be asked to pay (see Exhibit 9.12).

9.87 If a "beneficiary pays" philosophy were to be adopted, several principles would logically follow:

- the Department would give priority to funding activities that promote “national public good”;
- the Department would encourage and facilitate beneficiary self-reliance where “private good” is concerned; and
- the Department would apply the “beneficiary pays” principle equitably and consistently to all beneficiaries.

9.88 While the notions of “beneficiary pays” and segregating “public” good from “private” good have their appeal, they are difficult to implement. Most services that are currently provided have elements of both private and public good. This point is illustrated in Exhibit 9.13.

9.89 The Department was faced with a difficult task in determining a specific percentage of costs to be recovered. Rather than try to reach agreement on a specific allocation between private good and public good, it developed an alternative approach. For services that clearly had elements of both private good and public good, the Department argued that whatever the proportion of private good, it was at least 50 percent. This

approach had the advantage of avoiding arguments about whether the proportion of private good was, for example, 60 percent, 70 percent or 95 percent. The solution of up to 50 percent as an initial cost-recovery target is appealing because it allowed the Department to move quickly in establishing its cost-recovery initiative. However, it may result in the public bearing a disproportionate share of the costs of activities that provide a limited contribution to the public good, particularly if the percentage of costs recovered is not revised in the future.

9.90 To introduce a cost-recovery regime, the Department had to identify the costs of each of its activities. This was a complex task, because its financial and management control systems had not been designed with this in mind. Consequently, some judgment was required in allocating costs to services, and a considerable amount of analysis was performed to identify the resources used to provide each service.

9.91 To the Department’s credit, reasonable costing principles were developed and the full costs of the Animal

Most services currently provided have elements of both private and public good.

Canada is currently free of bluetongue. This health status is important in maintaining foreign market access for the cattle industry.

Until recently, the cattle industry was required by Canada to have all imported animals from the United States tested for bluetongue. In cattle, bluetongue is a very mild disease not unlike a cold. Symptoms may not even be visible and the health of the animal is not at risk. However, bluetongue in sheep can be fatal.

With the advent of cost recovery, the question of who should pay for testing for bluetongue is an issue.

On the one hand, it may be argued that those in the sheep industry are the beneficiaries of this service because it is their livelihood that is being protected. On the other hand, it may be argued that the cattle industry is the real beneficiary because testing allows foreign market access to be maintained.

In this case, the Department is treating the cattle industry as the beneficiary of the service.

This simple example illustrates the complexity in establishing an equitable cost-recovery regime.

Exhibit 9.12

Who Should Pay? The Case of Bluetongue

More of the cost-sharing burden should be borne by industry where public good is minimal.

and Plant Health Program were allocated to its two lines of business and its activities. The full costs were then subdivided into two categories, recoverable and non-recoverable costs. Non-recoverable costs included items such as corporate overhead, equipment and minor construction, accommodation and certain other costs. As a result, recoverable costs amount to approximately 80 percent of total costs.

9.92 For those activities whose cost is being recovered, the current recovery percentage ranges from 30 percent to 50 percent of "recoverable costs". We believe that, to ensure equity and fairness, more of the cost-sharing burden should be borne by industry where public good is minimal.

9.93 The rate of recovery on overall recoverable costs will be much less than current rates would suggest. Exhibit 9.14 indicates that even if all of the required savings from cost avoidance and cost

reduction are assumed to be "recoverable", the overall rate of cost recovery will be quite low at 20 percent of total recoverable costs. The overall rate will be influenced by the future revisions to recovery percentages, progress in cost reduction and cost avoidance and possible legislative changes to facilitate the collection of fees.

9.94 In response to industry concerns, we found that the Department made consultation with industry an important element of its Business Alignment Plan. The overall Plan was organized into three rounds, with implementation of the first round beginning in April 1995. For each round the Department prepared an initial information package on its proposals, and then discussed them with industry. This was followed by modifications based on the input received and follow-up discussions with industry to explain how its concerns had been addressed.

Exhibit 9.13

Examples of Public And Private Good

ANIMAL AND PLANT HEALTH PROGRAM ACTIVITY	PUBLIC GOOD	PRIVATE GOOD
Inspections of Animals or Plants with Import Permits	The public benefits only indirectly in the sense that the activity is geared to protecting our already healthy plant and animal populations from threats due to import activities.	The importer directly benefits by being able to bring into Canada an animal or plant free of disease. The importer is a risk maker. The risk may be of human health concern, or it may affect animals or plants of the same or of a different species.
Export Health Certification	There is a very small element of "public" good. Canada as a whole benefits from access to world markets as a result of abiding by global trading conventions. A strong economy benefits all Canadians.	The "good" is largely one of a private nature. The main beneficiary is the individual exporter.
Border Inspections	There is significant element of public good. The border inspections are intended to reduce the threat of entry to Canada of diseases or pests of a human health significance.	There is only a small element of private good. It would be impractical to identify a primary beneficiary, since all Canadians would tend to benefit equally from these preventive measures.

9.95 One illustration of the Department's flexibility was its response to industry's concerns about the impact of user fees on its competitive position. Because such a significant portion of our trade is with the United States, there was pressure from industry to keep Canadian export-related user fees in line with those of the United States for similar services. While the Department wanted market forces to determine services to be provided, it did not want to drive industry out of markets by imposing expensive user fees. The Department has indicated that it is aware of the need to minimize the negative impact on industry competitiveness and international market access. This led it to establish cost recovery for export services at 25 percent to 30 percent of "recoverable" costs.

9.96 Cost recovery for services previously provided without charge is currently being phased in over a three-year period to cover the full spectrum of program activities. We think the Department needs to go even further

and develop a long-term plan for industry to pay a share of the costs of services that is commensurate with the degree of private benefit derived.

9.97 The Department should determine the level of private good for each service provided and develop a strategy to recover an appropriate amount of revenue relating to the private benefit portion of the services.

Department's response: The Department accepts the recommendation and will proceed to develop a set of criteria that will guide the estimation of the level of private good associated with each functional area of service for each commodity group. These estimates of private good will be discussed with clients during the third round of cost recovery consultations, which are planned for 1997-1998. Departmental progress against these estimated levels will be influenced by the evolution of foreign countries' cost recovery policies and the importance of respecting the Canadian industry's ability to compete in these markets.

Exhibit 9.14

Overall Cost-Recovery Rate

	ANIMAL HEALTH	PLANT PROTECTION	PROGRAM TOTAL
1994-95 Recoverable Costs (Base Year information)	\$ 59,065,700	\$ 26,394,000	\$ 85,459,700
Less: Savings from cost avoidance and/or cost reduction (To be achieved over three years)	\$ 5,500,000	\$ 2,400,000	\$ 7,900,000
Equals: Net Recoverable Costs (A) (Assumes savings from cost avoidance and cost reduction were "recoverable" — a conservation assumption)	\$ 53,565,700	\$ 23,994,000	\$ 77,559,700
Target Cost Recovery (B) (To be achieved at the end of three years)	\$ 10,600,000	\$ 4,600,000	\$ 15,200,000
Overall Cost-Recovery Rate (B/A)	20%	19%	20%

Source: Agriculture and Agri-Food Canada

Accreditation is a reflection of the changing approach to delivering the Animal and Plant Health program.

Cost avoidance and cost recovery opportunities introduce new risks

9.98 The Business Alignment Plan is flexible in that “market forces” can influence the restructuring of the Department’s operations. The Department’s approach has been to work with industry to identify an optimal mix of cost recovery, cost avoidance (for example, accreditation and privatization) and cost reduction (for example, eliminating unnecessary services or performing existing services more efficiently and/or effectively) that would lead to meeting the financial targets set by the government.

9.99 Accordingly, our expectations were that the Department would:

- thoroughly re-examine all of its current services to ensure that they are being delivered as efficiently and effectively as possible; and
- ensure that any changes to program delivery as a result of cost avoidance and/or cost reduction measures will not compromise the Animal and Plant Health Program objectives of safeguarding health and facilitating trade.

9.100 The weaknesses in its systems for monitoring and reporting on program delivery limit the Department’s ability to identify areas where services could be delivered more efficiently or effectively. Until these weaknesses are rectified, there may be opportunities for cost avoidance and/or cost reduction that are not acted upon (see Exhibits 9.7 and 9.8). In spite of these shortcomings, the Department has identified opportunities for both cost avoidance and cost reduction.

9.101 In the plant protection line of business, an example of cost reduction is the introduction of multi-year import permits for certain plants and plant products. This has reduced the number of

import permits issued by plant protection in 1994–95 to approximately 6,000 from the 18,000 that were issued in 1992–93. An example of cost avoidance is the Department’s move toward the use of industry accreditation for the export of greenhouse plants. This will eliminate the need to issue approximately 10,000 export health certificates annually.

9.102 Cost avoidance through the use of accreditation is not new to the Department. The inspection and testing of animals destined for export (primarily to the United States but also to Mexico) has been done for many years by private sector veterinarians who have been “accredited” by the Department. These accredited veterinarians are also responsible for completing the related export health certificates, which are subsequently “endorsed” by the Department prior to export. Accreditation has also been used successfully in other areas, such as the inspection of hay for export to Japan.

9.103 The use of accreditation as a cost-avoidance tool is being emphasized by the Department. It has identified several other services it currently provides that could be undertaken by “accredited” parties. For example, the Department is developing accreditation models for low-risk nursery plant products, for delivering almost all departmental activities concerning seeds, for some laboratory testing requirements and for other activities. A special team has been created to standardize the use of these models in the Branch by applying internationally recognized ISO 9000 series of quality standards. All of the accreditation initiatives we described are expected to be introduced during the 1996–97 fiscal year.

9.104 Accreditation is a reflection of the changing approach to delivering the

Animal and Plant Health Program. In the past, enforcement and inspection have been delivered by federal inspectors. As accreditation becomes more prevalent, the focus will change to monitoring and compliance. To manage the risks associated with this transition successfully, the Department will need to ensure that its expectations of accredited parties are clearly spelled out and that strong monitoring and performance reporting systems are in place. This is a weak area, a fact confirmed by recent internal audits of the current accreditation programs for both animal health and plant protection. In particular, an audit of the accreditation of veterinarians cited specific weaknesses in monitoring and control. As a consequence, a formal review of the program has been completed and the Department has indicated that a modified accreditation program for veterinarians is to be implemented in April 1996.

9.105 The Department has recently completed a limited-scope "Diagnostic Design Project", which had a mandate to develop a new vision, strategic plan and program design for diagnostic testing activities of the Animal and Plant Health Program. The 1994-95 "recoverable" costs of these activities were \$32.2 million, approximately 50 percent of which is targeted for recovery from industry. This internal review was able to identify cash savings of \$50,000 annually and staff reductions of 10 full-time

equivalents, even though cost reductions and cost avoidance were not its primary thrust. This demonstrates the need to conduct an in-depth review of existing laboratory operations to determine if further savings are possible.

9.106 The Department should:

- **examine all significant aspects of its operations to identify additional opportunities for cost avoidance and/or cost reduction; and**
- **establish appropriate systems and practices to monitor and control activities that are performed by "accredited" parties.**

Department's response: The Department accepts the recommendation and is committed to making further progress through its cost avoidance and cost reduction initiatives. Initiatives in this area will not result in an impediment to trade.

The Department agrees that appropriate quality assurance and compliance verification mechanisms are necessary for all methods of program delivery. The adoption of International Standards Organization (ISO) and the internationally recognized Standards Council of Canada (SCC) norms and protocols are being pursued. Negotiations are currently under way with the Standards Council of Canada regarding the accreditation of non-federal laboratories. A transparent consultative process has been established to provide the broadest opportunity for stakeholders to challenge operational procedures and policies.



About the Audit

Objective

We conducted this audit with a view to assessing the adequacy of the Department's practices and identifying areas requiring significant improvement in the management of the Animal and Plant Health Program.

Specifically, we assessed whether:

- a sound basis is used to assess the risk of potential threats to human, animal and plant health and the economic consequences;
- program activities are designed and delivered in a way that deals with the most significant risks and is consistent with the mandate and objectives of the Department in this area; and
- the information to demonstrate the achievement of program objectives and results is readily available and reported to Parliament.

The chapter reports any opportunities we identified to improve planning, conducting or reporting of program activities.

Scope

This audit examined the animal and plant health sub-activity of the Inspection and Regulation Activity referred to in Agriculture and Agri-Food Canada's Part III Estimates. The Department carries out this sub-activity through two lines of business — Animal Health and Plant Protection. This sub-activity is designed to protect the health of Canada's animal and plant resources against severe damage caused by disease (including those transmittable to humans), pests, weeds and toxic substances.

In addition, we examined the changes and other major initiatives that have taken place since our last audit of this area in 1988.

Other aspects of the food production process (see Exhibit 9.2) were excluded from the primary focus of this audit. For example, we did not examine Food Inspection (an area we reported on in 1994), Veterinary Drugs and Pesticides (areas regulated by Health Canada).

Audit Team:

Linda Anglin
Rose Chevrier
Angus Mickle
John Rossetti
Mike Ryan
Gordon Stock

For information, please contact Douglas Timmins, the responsible auditor.

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Report of the
**Auditor General
of Canada**
to the House of Commons

Chapter 10
Correctional Service Canada –
Rehabilitation Programs for Offenders

May 1996

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Chapter 10

Correctional Service Canada

Rehabilitation Programs for
Offenders

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of the Canadian Institute of Chartered Accountants.

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Correctional Service Canada

Rehabilitation Programs for Offenders

Assistant Auditor General: Maria Barrados
Responsible Auditor: David Brittain

Main Points

10.1 Part of the mandate of Correctional Service is to rehabilitate offenders in its care. Since most of the 14,000 offenders currently incarcerated in federal penitentiaries will eventually be released to the community, many argue that this role is the most important part of the Service's mandate. It is particularly important when one considers that, historically, 28 percent of released offenders committed new offences after release.

10.2 Correctional Service spends approximately seven percent of its \$1 billion annual budget on programs targeted at factors that contribute to criminal behaviour. Traditional programs, such as education, vocational training and prison industries, focus on employability. Since 1988, intervention programs have been the main focus of the rehabilitation efforts of Correctional Service. These programs focus on factors such as sexual deviancy, substance abuse, and antisocial behaviour. Today, Correctional Service has designed an impressive series of intervention programs, some of which have received international recognition.

10.3 We noted weaknesses in the management of the \$34 million spent on intervention programs. The Service spends a disproportionate amount of its intervention program resources on two contracts without any assurance that the right offenders are being treated or any analysis indicating that the results being achieved justify their cost. For instance, 17 percent of the expenditure on sex offender programs is spent to treat 20 offenders, while the remaining 83 percent is spent on 1,800 offenders. For substance abuse programs, 16 percent of the expenditure is spent to treat 100 offenders, while the remaining 84 percent is spent on 5,000 offenders. Another weakness is that the Service has not fully established a continuum of programs to properly support offenders in their transition from the institution to the community. The Service is currently able to meet only 65 percent of demand for relapse prevention programs for sex offenders in the community.

10.4 There are also weaknesses in the management of the Service's traditional programs. CORCAN (the prison industry operation) is the Service's most expensive rehabilitation program, using more than \$100 million in the past four years. CORCAN jobs cost \$13,000 per full-time job in 1994–95, while basic education and vocational training cost about \$7,500 per full-time student. Furthermore, half of the offenders assigned to CORCAN did not necessarily need the skills being offered. Another concern is that over 95 percent of the Service's employability resources are focussed in the institutions, leaving very little to help offenders get a job once they return to the community. The Service does not have a coherent strategy to deal with offender employability. It cannot make the necessary trade-offs for resource allocation.

10.5 Correctional Service is committed to reintegration and has been successful in developing a wide range of intervention programs. However, there is a lack of attention by senior managers to determining the best match of resources to their overall objective of safe reintegration. To achieve this balance, the Service will require better information on the cost and benefits of its rehabilitation programs. Without such information, the Service lacks the capability to strategically reassess and reallocate its investment in rehabilitation programs.

Introduction

Correctional Service has two jobs — incarceration and rehabilitation

10.6 At any one time, approximately 14,000 offenders are incarcerated in federal penitentiaries. Most will eventually be released to the community, either on parole or statutory release, prior to serving their full sentence or at the end of their sentence. Because virtually all offenders will ultimately be released, the impact of Correctional Service on offenders extends beyond incarceration (see Exhibit 10.1).

10.7 Part of the Service's mandate is to rehabilitate the offenders in its care. To meet this objective, the Service:

- assesses offenders when they enter an institution to identify the “criminogenic” factors that have led to their criminal behaviour;
- assigns offenders to programs based on these assessments;
- assesses whether participating in rehabilitation programs has contributed to reducing the risk that an offender will commit another offence after release;
- makes recommendations to the National Parole Board on the release of an offender to the community; and
- provides supervision, further assessment and programs in the community until the end of the sentence.

Changing offenders' behaviour has been a goal of corrections for a long time

10.8 From the earliest days of corrections in Canada, changing the behaviour of offenders has been a goal. Before Kingston Penitentiary was opened in 1835, it was thought that removing individuals from the “evil influences” that led them to crime and subjecting them to

hard work would not only punish them but contribute to reforming them as well.

Over the years, the debate over the role of penitentiaries has continued, as has the debate over the efficacy of rehabilitation.

10.9 By the 1980s, the rehabilitation programs of the Service consisted mainly of education and vocational training as well as prison industry jobs. Those efforts were supplemented by inmate self-help groups such as Alcoholics Anonymous and some locally developed programs, such as sex offender treatment programs, which began at the Regional Psychiatric Centres in the Ontario and Pacific Regions in the 1970s. At the time, Correctional Service saw its role as providing rehabilitation opportunities to offenders, who could take advantage of them if they wished.

The Service significantly changed its approach to rehabilitation in the late 1980s

10.10 Starting in 1988, Correctional Service fundamentally changed its approach to rehabilitation programs by implementing what it terms an “active interventionist” approach. In 1991, it

By the 1980s, the rehabilitation programs of the Service consisted mainly of education and vocational training as well as prison industry jobs.

Exhibit 10.1

The Mandate of Correctional Service Canada

The mandate of Correctional Service is defined by the *Corrections and Conditional Release Act* (1992), which states that “the purpose of the federal correctional system is to contribute to the maintenance of a just, peaceful and safe society by:

- carrying out sentences imposed by courts through the safe and humane custody and supervision of offenders; and
- assisting the rehabilitation of offenders and their reintegration into the community as law-abiding citizens through the provision of programs in penitentiaries and in the community.”

enunciated four guiding principles on which the approach is based:

- Addressing the problems that have led to criminal behaviour is essential to reducing recidivism.
- The environment within the institution must be conducive to changing an offender's behaviour.
- The attitude, values and skills of staff are important elements of the Service's effort to change an offender's behaviour.
- Correctional Service must have an organized approach to providing rehabilitation programs.

10.11 The Service has implemented a number of programs intended to deal with criminogenic factors, that is, those factors that research indicates relate to criminal behaviour (see Exhibit 10.2).

10.12 In 1994-95, out of a departmental budget of approximately \$1 billion, Correctional Service spent \$75 million, or seven percent, on

programs that deal with criminogenic factors. A list of these programs and their estimated cost is shown in Exhibit 10.3.

10.13 In 1994-95, the Service began devolving operational responsibility for programs from national and regional headquarters to local management. As a result, national headquarters is responsible primarily for developing and implementing new programs, carrying out program-related research, and allocating funds to the regions. Regions are responsible for allocating their program resources and for training instructors. Institutions and parole offices are responsible for providing programs and for selecting instructors. This devolution of authority is still in process. In some regions, roles and responsibilities of the various players have not yet been fully developed. The Service has implemented a resourcing model designed to redress historical funding imbalances between regions.

10.14 Programs may be delivered in either the institution or the community.

Exhibit 10.2

Factors That Relate to Criminal Behaviour

Research indicates that various factors relate to criminal activity. A number of these factors are static and cannot be influenced (for example, age of first criminal conviction). Others, however, are dynamic, and it is these factors that the Service hopes to influence with programs. They include:

- **Employment.** Many offenders lack the education or job skills to be able to get or hold a job.
- **Marital/Family.** Many offenders lack parenting skills and have relationships marked by instability and family violence.
- **Associates/Social Interaction.** Many offenders have friends who encourage their criminal behaviour or substance abuse habits.
- **Substance Abuse.** Many offenders have significant problems with drugs and alcohol.
- **Community Functioning.** Many offenders have difficulties in managing their finances and leisure time.
- **Personal/ Emotional Orientation.** Many offenders have serious problems with impulsive behaviours, controlling anger and solving problems. In addition, a significant proportion of federal offenders have committed sexual offences.
- **Attitude.** Many offenders maintain attitudes that are anti-social and/or anti-female.

Programs in the institution are aimed at reducing the risk posed by an offender to a level that will make him suitable for release. Programs in the community are intended to build upon gains that offenders have made in institutional programs. Community programs also need to deal with risks specifically associated with being in the community — for example, by supporting a sex offender in his efforts to avoid relapse. In 1994–95, the education and CORCAN (prison industry) programs were delivered almost exclusively in the institution. As well, three quarters of the money spent on other programs (such as sex offender and

substance abuse programs) was spent in institutions, and one quarter was spent in the community.

10.15 In an institution, an offender's day is ruled by the routine of the institution (see Exhibit 10.4). On an average weekday, an offender has approximately six hours during which he might take part in activities. Offenders can be involved in programs, education, institutional employment (working in the kitchen, institutional maintenance or cleaning), vocational training and CORCAN. There are also offenders who, for a variety of reasons, are unemployed.

Exhibit 10.3

Correctional Service's Rehabilitation Programs and Costs, 1994–95

Intervention programs that address behaviour:	\$ millions
Sex Offender Programs	10
Substance Abuse	7
Locally Designed Programs	5
Living Skills	4
Other*	8
Total	34
*administration, aboriginal programs, family violence programs, community psychological counselling	
Traditional programs that address employability:	\$ millions
Education	19.2
CORCAN (prison industry)	16.6
Vocational Training	5.2
Total	41.0
Other activities related to rehabilitating offenders:	\$ millions
Mentally Disordered Offenders	7.5
Social and Cultural Programs (visits, hobbycraft, recreation)	12.5
Inmate Pay	20.0
Chaplaincy	5.5
Total	45.5

Source: Correctional Service Canada

Rehabilitating offenders is a difficult task, made more difficult by the environment of correctional institutions

10.16 Correctional Service's rehabilitation programs aim to reduce criminal behaviour by dealing with the factors that have led offenders to commit their crimes. Changing behaviour is a difficult task in itself, which is made more difficult by other factors:

- By the time individuals are admitted into a federal penitentiary, they have often developed problems that make them highly resistant to change.
- The sterile and artificial nature of the penitentiary environment does not necessarily support efforts to rehabilitate. Added to this is the pressure of living in close confinement with other offenders. As well, correctional officers (guards) are less supportive of rehabilitation than are other groups within the Service (as indicated in the Correctional Service staff survey). This lack of support can take the form of not co-operating with those involved in programs and failing to reinforce positive behaviours taught in Correctional Service programs.
- According to Correctional Service studies, the prevalence of alcohol and drugs in penitentiaries may reduce the impact of its substance abuse programs.

10.17 The Service has attempted, with varying degrees of success, to address some of these issues. For instance, it attempts to encourage program participation through inmate pay. The pay scale is intended to reward offenders who are complying with their correctional plans. The service is examining whether the current scale sufficiently supports its program efforts. It is also attempting to reduce the presence of alcohol and drugs in institutions through a national drug strategy.

10.18 Complicating decision making in institutions are other pressures that often conflict with the goals of rehabilitation programs. For example:

- Programs are useful as a way of keeping offenders busy in the institution. This is particularly true of programs that can be provided to a large number of offenders over a long period of time (for example, education, vocational training and CORCAN). As a result, there is pressure to accept as many offenders as possible in these programs, regardless of whether they have criminogenic needs that the programs are designed to meet.
- Although CORCAN's main purpose is essentially rehabilitative, there is pressure to be efficient to meet its objective of breaking even. This can lead to selecting offenders with needed job skills to participate in the program rather than those who most need the skills being taught. This is discussed further in paragraph 10.48.

- Programs are often given to an offender only to increase the likelihood of parole. For instance, many low-risk offenders are seen as suitable for rehabilitation programs in the community. However, the Service will frequently register those offenders for institutional programs in order to facilitate their application for parole with the National Parole Board. This practice leads to an overprescription of institutional

Exhibit 10.4

A Typical Inmate Weekday

7:00 – breakfast
8:00 – go to program, work or back to the cell
11:45 – return to the cell for count and lunch
13:00 – go to program, work or back to the cell
16:30 – return to the cell for count and then supper
18:00 – go to recreation, cultural events, self-help groups
22:30 – night count
23:00 – lock-up

programs, and ultimately to long waiting lists.

10.19 The Service has put a lot of effort into developing its rehabilitation programs, some of which have an excellent reputation. Research indicates that rehabilitation programs can be effective; however, it is essential that they be run well. As the Service has limited resources to devote to programs, it must make choices wisely. For example, it needs to be very clear about whom to treat. Should it take the worst offenders (such as those most likely to reoffend violently) and focus its efforts on minimizing the risk that they will reoffend? Or should it take the offenders who are most likely to benefit from programs, regardless of risk, and focus on them? Or should it expose as many offenders as possible to as many programs as possible and hope for the best?

Observations and Recommendations

10.20 The audit examined the value of the \$34 million spent on the Service's new program thrust, which is focussed on changing inmate behaviour (addressing six of the seven criminogenic factors identified in Exhibit 10.2). Here we tried to determine if the Service had a clear set of guidelines on who was eligible for programs; an integrated, cost-effective set of programs; information on costs and results; and a framework for assessing programs and reallocating resources.

10.21 Second, we looked at the \$41 million spent on the traditional programs of CORCAN, education and vocational training, which are focussed on employability skills — academic, interpersonal and teamwork. These programs have been in existence for a long time and, essentially, were once the

Service's rehabilitation efforts. Here we tried to determine if the Service had a clear strategy for dealing with employability, and if it had a mechanism for allocating its resources among the various components. Additional details about the audit are presented at the end of the chapter.

Intervention Programs

10.22 As noted earlier, Correctional Service dramatically changed its approach to rehabilitation in the late 1980s. The main thrust of its new approach, as specified in the Correctional Strategy, was the decision to concentrate its limited resources on programs that the research literature indicated had the most potential for reducing recidivism. This involved developing programs aimed at those offender characteristics related to criminal behaviour — such as treatment for sex offenders, substance abuse programs, family violence initiatives, and living skills programs. These programs are mainly delivered within the institutions; some continue after the offender has been released into the community. Some intervention programs attempt to influence attitudes and behaviour indirectly by conveying information; others try to change behaviour directly. Some of the key programs are described below.

10.23 Sex offender treatment. A variety of sex offender programs are offered in 27 institutions. They range from intensive (for example, a one-year residential program in a psychiatric centre) to intermediate (for example, a five-month program offered within a regular institution by a psychologist) to low-intensity programs. The latter are typically "relapse prevention" programs, which are offered in minimum security institutions and prepare offenders for their eventual release by both teaching them to recognize the factors that led to their

Correctional Service dramatically changed its approach to rehabilitation in the late 1980s.

offence and helping them to develop the skills to manage those factors. Community-based relapse prevention programs are also available and are important in maintaining gains. In 1994–95 Correctional Service spent \$10 million to treat approximately 1,800 sex offenders. See Exhibit 10.5 for the evolution of sex offender treatment.

10.24 Substance abuse. A variety of programs are available, but there are two key nationally developed programs. One is called the Offender Substance Abuse Pre-Release Program. It consists of 26 sessions, each three hours long, and is given in an institutional setting. It is designed to be followed by the second program, called Choices, which is delivered in the community. Choices has five six-hour sessions followed by weekly maintenance sessions for three months. Both programs are seen by the Service to

be appropriate for offenders with moderate substance abuse problems. There is also a national education program for offenders with low-level substance abuse problems. Finally, there are some locally developed programs in the various institutions, based on different philosophies of substance abuse treatment. In 1994–95 Correctional Service spent \$7 million on all substance abuse programs to treat approximately 5,000 offenders.

10.25 Living skills. The living skills initiative consists of a series of programs, the key component of which is called Cognitive Skills. It is a five-year-old program designed to change the anti-social thinking that led offenders to criminal behaviour. This program involves 36 two-hour sessions. There also is an Anger and Emotions Management program component, which has recently been developed to teach offenders to

Exhibit 10.5

Evolution of Sex Offender Treatment in Correctional Service

Twenty-three years have elapsed since Correctional Service first provided sex offender treatment at the Regional Psychiatric Centres in the Ontario and Pacific Regions. The sex offender population has grown tremendously since then, and so has the information on characteristics and risk factors specific to the different types of sex offenders. Today there are nearly 5,000 sex offenders under Correctional Service jurisdiction, who represent approximately 25 percent of the federal offender population. It is the segment that is growing at a faster rate than any other offender group in Correctional Service. Approximately 3,500 of these 5,000 offenders are serving their first sentence for a sex offence. In 1991, a census revealed that a majority of the sex offenders were convicted of sexual assaults. The average sentence for a sex offender in 1995 was 5 years, compared with 4.2 years in 1991. The vast majority of sex offenders are male.

Sex offenders vary greatly in nature and in degree of dangerousness. The best predictor of sexual reoffence is the individual's sexual offence history. Some are considered much more likely to reoffend (for example, homosexual child molesters) than others (for example, incest offenders). Rapists are more likely to use gratuitous violence. Experts agree that sex offenders can never be cured, but can be taught to control their impulses. Community follow-up is especially important as they learn to manage their deviance in a setting where risk factors are reintroduced, as opposed to the artificial setting of the institution.

Since the 1970s, the methods used to treat sex offenders have become much more sophisticated. Today Correctional Service uses laboratories both to assess the level of deviance and to teach offenders to react in a more acceptable manner to various stimuli. Many sex offender programs begin by addressing the denial that is typical of this group. Group therapy is also used, as it allows peers and the therapists to confront the offender when he attempts to justify his crimes. Another important feature is training the offenders to establish their "crime cycle", that is, all of the factors that led to their unacceptable sexual behaviour.

Correctional Service currently has the capability to treat sex offenders at three levels of intervention: intensive, moderate and low (which includes maintenance and relapse prevention). Its treatment capacity has increased from 200 in 1988 to 1,800 in 1995. This capacity, however, is not keeping pace with the influx of sex offenders into the system.

manage harmful emotions and to deal with high-risk anger situations. In 1994–95 Correctional Service spent \$4 million to treat approximately 6,000 offenders in the living skills field.

10.26 Family violence. In 1995 Correctional Service estimated that at least 33 percent of the offender population had indications of family violence in their background. To deal with the issue of family violence among this group, the Service has given priority to developing new programs, some within the institutions and others in the community. In 1994–95 the Service spent approximately \$1.9 million to treat approximately 500 offenders.

Wide variation exists in the costs and methods used to treat offenders who pose a similar risk of reoffending

10.27 The Service's treatment of sex offenders varies considerably from region to region. For example, a high-risk sex offender may undergo a year-long residential program in a psychiatric facility in one region, while in another region an equally high-risk sex offender will receive a six-month, non-residential program. A second problem with sex offender programs is that the costs vary widely for a given level of risk. For example, in some moderate-intensity programs it costs \$2,000 to treat an offender, while in other similar programs it costs up to \$7,000 per offender. Similar cost discrepancies can be found in both high- and low-intensity treatment. Given the wide variation in length, approach and, ultimately, cost, the Service needs to concentrate its effort on those sex offender treatment programs that are most cost-effective.

10.28 Another anomaly in sex offender programs is the disproportionate amount of resources spent on a few offenders,

without any assurance that they are the right offenders and that the program is achieving its intended results. Seventeen percent (\$1.7 million) of the Service's total sex offender program budget is used in one region, on a contract to treat up to 20 sex offenders per year. The remaining 83 percent (\$8.3 million) of the sex offender program budget is used to treat 1,800 sex offenders per year.

10.29 The same type of problem exists with substance abuse programs, where a disproportionate amount of resources is spent in one region on a contract to treat a small group of 100 offenders who need substance abuse treatment. The cost of treating these offenders (\$1.1 million) represents 16 percent of the total expenditures for substance abuse. The remaining 5,000 offenders receive only \$5.9 million for treatment.

10.30 Correctional Service has greatly expanded its knowledge and expertise since these contracts were initiated in the 1980s. Since that time, the Service has also developed a significant array of programs designed to address similar types of criminogenic needs. However, to date it has not determined whether the contracts are cost-effective in relation to alternative programs within the Service.

The Service has not consistently ensured continuity between institutional and community programs

10.31 To reduce the risk to the community, appropriate treatment or assistance for offenders must continue to be available in the community after they have been released. This is critical to reducing recidivism because, upon return to the community, offenders are once again confronted with those factors that initially led to their criminal conviction. The goal is for offenders to use skills taught within the institution to deal with

Seventeen percent of the Service's total sex offender program budget is used to treat up to 20 sex offenders.

“hazardous” situations in the community. One example of such treatment is called “relapse prevention”, which is a recognized approach to treating sex offenders and substance abusers.

10.32 Despite the fact that relapse prevention for sex offenders in the community is a highly effective risk-management tool, there is an estimated shortfall in this “maintenance” treatment available in the community. Currently, 35 percent (or approximately 400 released offenders) are not receiving relapse prevention treatment. Furthermore, this shortfall is most pronounced in the two regions with the largest proportion of sex offenders.

10.33 We also noted that a continuum of programs for family violence is lacking. In 1990, approximately \$9 million was allocated to Correctional Service for use over four years to develop and implement family violence programs. Since that time, this initiative has gone from an experimental to an official program. However, ensuring that offenders are properly identified and receive intervention programs for family violence has been a difficult task. Of a

sample of 80 offenders now in the community who were identified in 1995 as needing family violence programs, we found that only a few had participated in suitable programs in the institution and none in the community. In fact, nothing in the files on most of these offenders indicated that their parole officers knew that family violence was an issue.

10.34 A comparison of expenditures on family violence programs shows considerable differences in the amount of money that different regions spend on providing a continuum of family violence treatment from institution to community. For example, while most regions spend the majority of their funds in the community, the Quebec region invests only 19 percent in the community (see Exhibit 10.6).

10.35 Another problem with continuity of programs is in the design of programs delivered in the community. Programs originally developed for institutions are difficult to deliver effectively in the community because their structure reflects the artificial environment in institutions. However, we found that most programs delivered in the community were essentially duplicates of those offered in the institutions, rather than designed as a “booster/follow-up” program to be delivered in the community. We did note, however, that the Service has recently developed a Cognitive Skills booster, although this program is still not available nationally.

Recruitment and support of program instructors require further emphasis

10.36 The Service has established standard training programs and selection criteria for instructors in nationally designed programs. The Service believes that selecting the right people (those who best meet the selection criteria) will ensure that it will have instructors with the

Exhibit 10.6

Family Violence Programs Expenditure by Region 1994–95

Region	(\$ 000)	% to Institution	% to Community
Pacific	267	13	87
Prairies	345	39	61
Ontario	639	22	78
Quebec	368	81	19
Atlantic	277	0	100
National	\$1,896	32%	68%

Source: Correctional Service Canada data

skills to influence offenders. Correctional Service then trains the instructors in the subject matter they will be required to teach. However, each region has adopted a different salary classification range for instructors, resulting in a wide discrepancy in salaries. Correctional Service has not fully considered the implications of this inconsistency on its rehabilitation programs.

10.37 As well, we noted that instructors receive limited support for their classroom work. Assessment is done by national or regional instructors who review videotapes of delivered sessions. Although Correctional Service is decentralizing this function, more ongoing support is necessary, given the difficulty of changing the behaviour of offenders in the correctional setting.

The management of intervention programs requires greater attention

10.38 The Service's ability to intervene and change criminal behaviour has grown tremendously in the last 10 years. It developed a conceptual model based on research literature and many elements of this model are now in place. However, we concluded that there is no management framework for intervention programs that would enable senior management to reassess and strategically reallocate funds in order to reduce risk. Without this management framework, the Service does not know if it is making the best use of its funds, in keeping with its overall objective of safe reintegration. This lack of a framework is illustrated by our audit findings:

- different treatment approaches for offenders with similar risk profiles;
- expensive programs conducted for small groups of offenders without knowledge of their cost effectiveness and

results when compared with other Correctional Service programs; and

- an incomplete array of programs to manage the transition of the offender from institution to community.

10.39 **Correctional Service should ensure, in keeping with the principles in its Correctional Strategy, that its resource allocation is based on cost and sound information on the benefits of its programs, both among similar types of programs and across all rehabilitation programs.**

Correctional Service's response: We agree with this recommendation. Over the past seven years, we achieved an enormous growth in the variety and volume of programs. We did so by launching new programs in institutions that volunteered to be the front runners or where external sources of expertise were most available. As a result, some institutions advanced more than others.

We have begun the necessary rationalization of resources. At the macro level, a resourcing formula has been in place for a couple of years. We have also begun a program-by-program review to ensure that delivery can be made regardless of location. The first programs subject to this review have been cognitive living skills, moderate-intensity substance abuse, and relapse prevention for sex offenders.

Employability Programs

10.40 Research indicates that offenders who find good jobs upon release are less likely to be reincarcerated. In a recent study, the Conference Board of Canada identified employability skills as key to success in the Canadian work force: academic skills (communication, thinking, learning), personal management skills (attitudes, behaviours, responsibility, adaptability) and teamwork skills. To help offenders acquire these skills, the Service

The Service's ability to intervene and change criminal behaviour has grown tremendously in the last 10 years.

has education, vocational programs and CORCAN. The latter is a special operating agency that provides jobs to offenders in prison, in a setting that is intended to model a real work situation. In addition, the Service has limited employment counselling and job placement services in the community. The cost associated with these programs varies significantly. As we have noted earlier, these programs face contradictory pressures. The emphasis on rehabilitation can be at odds with the need to keep offenders busy and, in the case of CORCAN, the pressures of trying to run an efficient and financially viable operation.

10.41 We expected that management would have reviewed these various programs and determined whether they formed a coherent national strategy designed to deal with offender employability. We considered this review particularly important given that governments are eliminating their employment programs for offenders in the community.

CORCAN

10.42 Offender employment within the federal prison system dates back to the 19th century. In the early years, the purpose of prison employment was to reduce idleness among offenders. By 1960, Correctional Service began focussing on the potential of prison employment as a rehabilitation activity.

10.43 In 1981 Correctional Service created a national prison industry. The trademark CORCAN was used to identify goods and services produced using inmate labour. CORCAN was made a special operating agency in 1992. It operates farms and workshops in 33 of the

Service's 43 prisons and uses inmate labour to produce goods and services for sale to Correctional Service and other federal departments and public agencies. Products and services include agricultural commodities, construction, garments, office furniture and data entry. When it became a special operating agency, CORCAN was given the authority to enter into joint ventures and marketing arrangements with the private sector.

10.44 In addition to revenue from the sale of goods and services, CORCAN receives an annual training and corrections fee from Correctional Service (see Exhibit 10.7). This fee, \$16.6 million in 1994–95, is intended to offset the cost associated with training offenders and compensate CORCAN for operating within a prison setting. When CORCAN was made a special operating agency, it also obtained access to a \$45 million revolving fund to provide working capital and investment funds to assist in an expansion of its rehabilitation mandate.

10.45 According to CORCAN's 1992 special operating agency charter, the agency is to:

- offer offenders work-related training and work experience in accordance with needs identified in their correctional plans; and
- provide a wide range of employment-related services in the community to help released offenders to re-enter the labour market and reintegrate into society.

In addition to the training and corrections goals, the new mandate set out these objectives:

- increase offender participation in CORCAN; and
- be financially self-sustainable.

CORCAN is not meeting its training and corrections goals

10.46 CORCAN has been unable to meet its expanded goals since becoming a special operating agency with a revolving fund in 1992. It has not performed as expected in areas related to its rehabilitation and corrections mandate: the number of training jobs it provides to offenders; targeting offenders who lack employability skills; and providing employment-related services to help released offenders reintegrate into the community.

10.47 For example, employment of offenders at CORCAN has remained relatively constant at approximately 1,700 full-time jobs. This number had been forecast to increase to 2,000 by 1995–96.

10.48 CORCAN's mandate is to provide offenders with training and employment in accordance with employability needs identified in their correctional plan. These needs are identified during the offender intake process, at which time a correctional plan is prepared. At five institutions we examined a sample of offenders assigned by the Service to work at CORCAN. We found that, in the majority of cases,

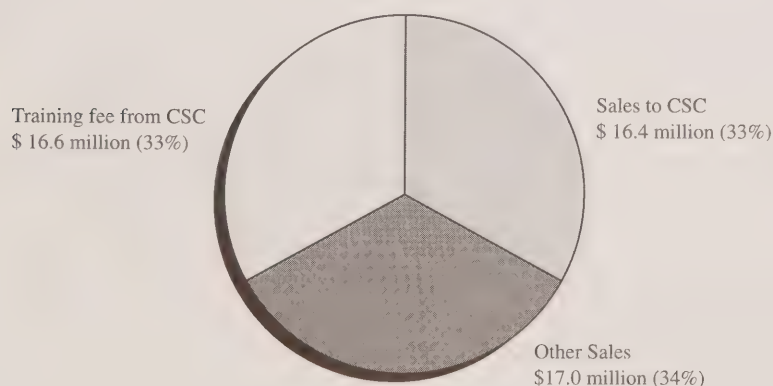
neither the files nor, more specifically, the correctional plan indicated that the offenders needed the training in employability skills provided by CORCAN. Furthermore, we found that nearly half the offenders in our sample had had a good employment history before being imprisoned, or that they had either held consecutive CORCAN jobs over a number of years or were working with CORCAN in areas where they already had job experience.

10.49 CORCAN has a mandate to provide a wide range of employment-related services to assist offenders being released or living in the community. These services are to range from job search and counselling to community-based employment projects and workshops. Currently, CORCAN offers these services to offenders in only 12 locations across the country. It spent \$1.6 million on these projects in 1994–95, half of it in one region.

CORCAN is not meeting its goal of self-sustainability

10.50 In the three years ending 31 March 1995, CORCAN had net operating losses of \$7.3 million. Further losses of up to \$2 million are forecast by CORCAN for 1995–96. In particular,

CORCAN has not performed as expected in areas related to its rehabilitation and corrections mandate.



TOTAL: \$ 50 million

Exhibit 10.7

CORCAN – Sources of Revenues 1994–95

CORCAN's Industries (manufacturing) business line has sustained significant operating losses each year. As a result, CORCAN has been drawing down its revolving fund more quickly than was originally expected. The \$45 million revolving fund was expected to have a balance of only \$7–10 million at 31 March 1996.

10.51 The reasons for this poor financial performance are varied and require management's attention:

- In order to maintain offender employment levels, CORCAN operates 14 manufacturing facilities despite low demand for some of their products. Furthermore, work in a prison setting entails a high supervisor/offender ratio and, in some cases, low offender productivity.
- CORCAN has experienced declining demand in the traditional federal government market for office furniture. To date, the introduction of new products and services has been insufficient to address these operating losses. Thus, CORCAN remains reliant on the Service for the majority of its operating revenue.
- A 1974 Cabinet decision, which was reaffirmed by the Treasury Board ministers in 1995, encouraged federal departments to purchase from CORCAN when appropriate. CORCAN stated that the response has been lukewarm.
- There are costs that are not directly attributable to units of sales. These costs are high relative to sales — \$10 million on \$30 million sales in 1994–95 — and overall operating margins are insufficient to cover them.

Vocational Training

The Service needs to assess the potential of vocational training to meet employability needs

10.52 Correctional Service spends approximately \$5.2 million per year on vocational programs. According to its latest figures, 3,572 offenders were registered in vocational programs in 1994–95, which is the equivalent of 728 full-time student positions, at a unit cost of approximately \$7,200 each. Seventy-two percent of these students successfully completed their course of study.

10.53 Traditionally, Correctional Service has offered a wide range of vocational training programs in its institutions. These include auto mechanics, auto body repair, small engine repair, sheet metal, upholstery, welding and woodworking. Some institutions have eliminated many or all of their vocational programs because of difficulty with certification, the high cost of some programs, the length of time needed for completion (when compared with the average length of stay in an institution for a typical offender), and the difficulty in anticipating which skills the job market will be seeking.

10.54 Although some institutions have cut vocational programs, others have taken the initiative to develop and implement simpler training programs. For example, following an analysis of its vocational programs, one institution developed an inexpensive course using maintenance of the institution to teach inmates custodial/janitorial skills such as equipment maintenance, painting and drywall installation. The course is inexpensive, has a short time frame, and provides inmates with skills that are

appropriate to the typical inmate's aptitudes and for entry level into the work force. We have been told that inmates who have completed the course have had some success in finding related jobs. However, ventures such as these have generally remained local. While they appear to be worth further investigation for broader use, there is very limited evaluation carried out within Correctional Service, either at the local or regional/national levels, to determine which vocational programs are the most cost-effective. In some cases, vocational training may have possibilities as an alternative to CORCAN. Its advantage seems to be its lower cost and flexibility to keep pace with changing local circumstances, both inside the institution and in the community.

Education

Education is delivered consistently well across the Service

10.55 In 1994–95, Correctional Service reported that 70 percent of offenders entering institutions tested below Grade 8 and 86 percent below Grade 10. Their average level was Grade 7.4. The Service views low education as a factor related to criminal behaviour. Currently, its policy is to provide all inmates with Grade 10 equivalency. Generally, basic education needs are addressed before proceeding with vocational training or CORCAN jobs. The Service spends about \$12.5 million per year on basic education (Grades 8 and 10 programs combined). The approximately 7,000 enrollments per year in Correctional Service schools are equivalent to 1,700 full-time students, at an average cost of about \$7,400 per student.

10.56 Offenders can complete up to Grade 12. However, it is not a requirement, and the program relies

heavily on self-study by the inmate.

Currently, the equivalent of about 771 full-time students are pursuing Grade 12 studies, at a cost of about \$7,200 per full-time equivalent or \$5.6 million per year. Inmates generally pay for their own post-secondary education, unless it can be demonstrated that the education addresses a specific criminogenic need.

10.57 Correctional Service requires that the education programs delivered in institutions meet provincial accreditation standards. In some cases, the institution or its contractor is accredited as a school, and the principal has the authority to grant grade level accreditation to the students. In other cases, the students write provincially set exams to qualify for the grade level equivalency. A few institutions are in transition from one system to another, but inmates in Correctional Service institutions are generally receiving education that is recognized and valid upon their release.

Strategy for Addressing Offender Employability

Resources used to address employability are not well managed

10.58 There are significant variations in costs among CORCAN, vocational training and education. For example, both education and vocational training are much less expensive per inmate than CORCAN. Furthermore, experience to date indicates that education and vocational training are given to those who need it, whereas half of the offenders in CORCAN shops do not necessarily need the training CORCAN offers.

10.59 CORCAN jobs cost more than other comparable employability training. The cost to Correctional Service for a CORCAN job — based on the training fee of \$16.6 million for 1,688 jobs — was \$9,800 in 1994–95. This does not include

CORCAN's operating loss, which was financed by drawing down the revolving fund. Taking these operating losses into consideration, the cost of a CORCAN job was approximately \$13,000 in 1994–95. (CORCAN forecasts a cost per job of approximately \$11,000 for 1995–96.) By comparison, vocational training and basic education cost about \$7,500 in 1994–95.

10.60 The Service does not have an adequate continuum to assist offenders in their transition from the institution to the community. For instance, we found that there is only limited assistance to help offenders locate and keep a job, once released into the community. As well, employment counselling or job placement services offered by the Service or by other agencies is sporadic. Under fiscal restraint, Human Resources Development Canada is having difficulty maintaining the traditional level and form of assistance for ex-offenders. In addition, the federal government's decision to withdraw from purchasing labour market training may leave a significant void in the range of services to offenders.

10.61 The Service is not able to make the trade-offs necessary to address employability as a criminogenic factor. Correctional Service has the option of spending its resources on any combination of education, vocational training, CORCAN or job search assistance. It needs a framework for making these choices and a process to ensure that they are periodically reassessed. For example, it could change its education policy and raise the education level of offenders to Grade 12. It could put more effort on job search and counselling, or more emphasis on vocational training. It could rationalize those CORCAN operations (both business lines and sites) that are the most expensive.

10.62 The Correctional Service should evaluate the costs and benefits related to its expenditures in CORCAN, education and vocational training to establish clear guidelines on who should be trained and establish which programs are most cost-effective.

Correctional Service's response: We agree. Greater efforts should be made to assess the respective contributions to offender employability of prison industries, education and vocational training. However, they are not necessarily true alternatives since many offenders need adult basic education as a prerequisite for entry into vocational training or prison industry. It should also be noted that most labour market observers argue that adaptability rather than specific job skills is the most important determinant of employability in a rapidly changing economy. Education and actual job experience are more likely to bring this about.

Management of Rehabilitation Programs

10.63 The rehabilitation initiatives of Correctional Service over the past decade represent a significant accomplishment. The Service has put a great deal of effort and resources into improving programs since 1988. Its efforts to reduce recidivism by good rehabilitation programs are laudable.

10.64 Correctional Service has recently shifted responsibility for many aspects of rehabilitation programs to its regions, institutions and parole districts. Each region has established committees (or councils) to plan and develop as well as oversee program delivery. While there is some variation among regions, the committees are responsible for functions such as identifying new program needs and training program instructors. In some regions, the mandates for these committees have not yet been formalized,

The Service is not able to make the trade-offs necessary to address employability as a criminogenic factor.

and the committees are not formally connected to senior regional management. Within institutions there are different organizational structures. The other rehabilitation programs are distinct from CORCAN, with a further separation between the intervention programs and the educational and vocational programs.

10.65 The budget for rehabilitation programs is allocated to the regions under a process that was introduced in 1994 to address the long-standing problem of uneven allocation of resources among regions. The regions have different approaches to funding and delivering programs and do not have control over the entire rehabilitation program budget; the CORCAN budget, for example, is separately controlled. As a result, the management of rehabilitation programs is diffused across a multitude of centres. There is little capacity to manage the diversity of programs from an overall perspective. This contributes to offenders with identical needs at different institutions or in the community receiving different levels of programming.

Better measurement of program costs and effectiveness is needed

10.66 With the Service's decentralized approach to rehabilitation programs, management at all levels needs clear goals, targets and measurement systems that provide results-based information on the extent to which criminogenic needs are being addressed and results achieved. Correctional Service has limited cost information available on its rehabilitation efforts. Recently, the Service has developed a series of independent databases for some activities, such as sex offender programs, institutional programs, community programs and education programs. These databases contain information on costs and participation

rates. However, they are difficult to use in an integrated way because they were developed independently for different purposes. An initiative is under way to develop a national performance measurement system for rehabilitation programs. Progress to date has been slow, but plans call for the completion of the framework in 1996.

10.67 In our 1994 Report chapter on the National Parole Board, we indicated that "Board members...often do not know what (if any) benefit ...the offender has received from programs." This information is important both for making release decisions and for prescribing or continuing post-release treatment in the community. According to our discussions with Correctional Service and National Parole Board management and our review of recent Correctional Service investigations, closing the information gap remains a challenge. Without this information, Correctional Service's ability to manage risk is hampered.

10.68 A further concern is the lack of information about the overall effectiveness of many of the rehabilitation programs in contributing to the safe reintegration of offenders into the community. In order to make the best possible release decisions affecting the risk to the public, it is critical to know "what works" and "what does not work" in rehabilitation programs.

10.69 To date, the effectiveness of only a few of the Service's rehabilitation programs has been measured. However, the Service has made progress in this area. We examined three recently completed evaluation studies. In two studies, we concluded that, while there was general merit, the scope and methodology were not sufficient to produce a reliable and comprehensive picture of the programs' effectiveness. In the third study, the

Service used a much more rigorous methodology. Although we found some problems with the application of the methodology, we commend the Service for its increased efforts in this area. Given the importance of studies like these in contributing to decisions affecting release to the community, further efforts are required that will increase the scope and rigor of these evaluations. More important, the Service needs to broaden its efforts to include assessing the effectiveness of combinations of programs provided to offenders, as well as the measurement of the relative impacts of different programs targeted at the same criminogenic need.

The Service needs to address the overall management of rehabilitation programs

10.70 As noted earlier, we expected the Service to have a management framework that would allow it to:

- set a clear policy direction on how rehabilitation goals are to be achieved;
- establish clear guidelines on who should be treated, and the level of intervention or treatment required;
- establish an integrated, cost-effective set of programs;
- monitor the operational performance of the program as well as the results being achieved (at the overall and individual offender levels); and
- reassess its rehabilitation programs and reallocate resources on the basis of changing needs, priorities and results.

10.71 In our audit we noted that the Service:

- spends a disproportionate amount of its intervention programs budget on two contracts, without any assurance that the right offenders are being treated or any analysis that indicates that the results

being achieved by these services justify their cost;

- has not established a continuum of programs from the institution to the community to properly support offenders in their transition to the community;
- spends more money on its traditional employability programs than it does on its newer research-based intervention programs;
- spends a large amount of its employability resources on CORCAN, which was offered approximately half of the time to offenders with minimal employability needs;
- lacks an adequate information base to assess and compare the performance of its various programs; and
- lacks the knowledge of how effective most of its programs are.

10.72 Our observations led us to conclude that Correctional Service lacks the management framework to effectively guide the delivery of rehabilitation programs in accordance with its overall objective of reduced recidivism. We believe that it is now time to strengthen the management of its rehabilitation programs.

10.73 **Correctional Service Canada should develop the capability to strategically reassess its rehabilitation program expenditures and reallocate its funds as necessary. The Service should develop performance measures so that management at all levels can truly manage the rehabilitation effort.**

Correctional Service's response: The Correctional Service agrees wholeheartedly with this recommendation. It is obviously the goal to be pursued. However, despite our close ties with most of the major prison services in the world, we are not aware of any that have found fully satisfactory ways of evaluating the relative values of programs or that have

Correctional Service lacks the management framework to effectively guide the delivery of rehabilitation programs.

come up with more powerful performance measures than unit costs and participation rates. This is not an argument for complacency; we are determined to remain in the forefront of this field and, to this end, have launched a number of steps such as a manual on program standards and guidelines, refinements to the

financial coding structure, enhancements to the management monitoring system, better program referral criteria, and the establishment of an ongoing national council on correctional programs. The project team charged with this work is due to report in September 1996.



About the Audit

Scope

This audit focussed on the activities and services of Correctional Service Canada that address the criminogenic needs of its offender population. Specifically, we looked at the activities related to \$75 million of expenditures on education, vocational training, CORCAN, and substance-abuse, sex offender and living skills programs. Excluded from the scope of our examination were the Service's recent initiatives in the area of rehabilitation programs specifically designed for women and aboriginal offenders.

Objective

The objective of the audit was to assess how well the rehabilitation process is being managed. Specifically we assessed whether:

- there is clear policy direction on how rehabilitation goals are to be achieved;
- there are clear guidelines on who should be treated, and the level of intervention or treatment required;
- there is an integrated, cost-effective set of programs;
- there is a process to monitor the operational performance of the program as well as the results being achieved (at the overall and individual offender levels);
- the Service periodically reassesses its rehabilitation program efforts and reallocates resources on the basis of changing needs, priorities and results.

Audit Team

Tom Beaver
Estelle Charette
Bill Johnson
Chantal Michaud
Marion Smith
Mary Louise Sutherland
Jocelyne Therrien
Frank Vandenhoven

For information, please contact David Brittain, the responsible auditor.

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